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Budget Materials - FY1999 Generally [2]

Kevin S. Moran
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- Health Research In the Research Fund For America (OMB)
- Restoring Benefits to Vulnerable Groups of Legal Immigrants (OMB)

- HIV/AIDS (OMB)

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FOR RELEASE:
Monday, February 2, 1998, 8 a.m.

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PRESIDENT CLINTON PROPOSES FIRST BALANCED BUDGET IN 30 YEARS

Invests in Education, Child Care, Health, Research, Other Priorities; Reserves Budget Surplus to "Save Social Security First"

Speaking from the East Room of the White House, President Clinton today proposed a balanced Federal budget for 1999, marking the first balanced budget in 30 years and bringing an era of exploding deficits to an end.

By reaching balance, the President's budget represents a remarkable turnaround in the Nation's fiscal policy over the last five years. It brings to an end three decades of fiscal chaos, a period in which Americans had lost confidence in their Government and the ability of their leaders to do the people's business.

"We are not only balancing the budget for the first time in a generation, we are reaching balance three years ahead of the schedule we announced last summer with the Balanced Budget Act," the President said. "If we maintain our fiscal discipline, we may very well reach balance this year -- four years ahead of schedule."

The President's $1.7 trillion budget for 1999 is not just balanced, it is balanced the right way. It not only ends the deficit, it reflects the values that Americans hold dear -- the values of opportunity, responsibility, and community. The budget reflects the President's commitment to continue helping working families with their basic needs -- to raise their children, send them to college, and pay for health care.

The budget invests in education and training and in research to raise the standard of living for average Americans. It invests in the environment and in law enforcement to raise the quality of life across the Nation. It invests in communities at home while providing the resources to maintain a strong defense and conduct the international relations that have become so important to the Nation's future.

Reflecting the President's call to "save Social Security first," the budget proposes a reserve for the projected budget surpluses for 1999 and beyond, pending a solution to the long-term financing challenge facing Social Security.

Within tight constraints, the President proposes major initiatives to build on his investments in high-priority areas -- from helping working families with child care to allowing Americans from 55 to 65 to buy into Medicare; from helping States and school districts reduce class size by recruiting and preparing 100,000 more teachers and building more classrooms to addressing global warming. The budget pays for every initiative dollar by dollar.

Challenging times demand innovative solutions, and this budget meets the challenge by proposing three new investment funds for America -- for research, the environment, and transportation -- that will focus attention on these critical priorities. Together, the funds provide $75.5 billion, a $4.7 billion increase over the 1998 level for the programs they contain. Because the funds rely on budget offsets to help finance the spending, they, in effect, apply pay-as-you-go principles to discretionary spending.

The funds are:

- The Research Fund for America, which includes a broad range of investments in knowledge, including programs of the National Institutes of Health, the Centers for Disease Control and Prevention, the National Science Foundation, the National Aeronautics and Space Administration, the Energy Department, the Commerce Department's National Institute of Standards and Technology, Agriculture Department research programs, the multi-agency Climate Change Technology Initiative, and other programs. The budget finances this Fund, in part, through receipts from tobacco legislation and savings in mandatory programs.

- The Environmental Resources Fund for America, which encompasses the multi-agency Clean Water Initiative; the new Land, Water, and Facility Restoration Initiative of the Interior and Agriculture Departments; the Agriculture Department's water and wastewater program for rural communities; and the Environmental Protection Agency's programs for cleaning up hazardous waste sites (within the Superfund) and upgrading clean water and safe drinking water infrastructure. The budget finances the Fund, in part, through an extension of Federal taxes that support the Superfund.

- The Transportation Fund for America, which includes the Transportation Department's highway, highway safety, and transit programs; the Flight 2000 free flight demonstration program; and the Federal Aviation Administration's programs, including Airport Grants. The budget finances the Fund, in part, through a new Federal aviation user fee.

The budget continues the President's efforts to reduce the size and scope of Government. This budget is the smallest Federal budget, as a share of the economy, in 25 years. To date, the Administration has cut the civilian Federal workforce by over 316,000 employees, giving us the smallest workforce in 35 years and, as a share of total civilian employment, the smallest since 1931.

But the Administration set out to do more than cut Government. Under the leadership of the Vice President's National Performance Review, it sought to make Government work, to create a Government that is more efficient and effective, to create a Government focused on its customers, the American people. The Administration has reinvented parts of departments and agencies. Now, it proposes to turn agencies around from top to bottom. For 1999, the Vice President will lead an effort to improve the performance of agencies that interact most with the American people.

Under the 1993 Government Performance and Results Act, Cabinet departments and agencies have prepared individual performance plans that they will send to Congress with the performance goals they plan to meet in 1999. These plans, in turn, form the basis for the first Government-wide performance plan, which the Administration is sending Congress along with this budget.

Investing in Education and Training: Nothing is more important to America's future than education. It has become the dividing line between those who are moving ahead and those who are lagging behind. That is why the President has devoted so much effort to ensure that we have a world-class system of education and training in place for Americans of all ages. Over the last five years, the President has worked hard to ensure that every boy and girl is prepared to learn, that schools focus on high standards and achievement, that anyone who wants to go to college can get the financial help to attend, and that those who need a second chance at education and training or a chance to improve or learn skills can do so.

The budget significantly increases funds to help children, especially in the poorest communities, reach challenging academic standards and makes further progress in implementing voluntary national tests. It proposes to pay for 100,000 more teachers and build more classrooms in order to reduce class size. For higher education and training, the budget increases Pell Grants and other college scholarships from the record levels already achieved; expands College Work-Study to a record one million students; streamlines student loan programs and cuts student fees; and expands access to job placement services, training, and related services for dislocated workers and others. Now that anyone who wants to attend college can find the means through Hope scholarships, Pell Grants, and other assistance that the Administration has worked so hard to enact, the President wants to provide the same universal opportunity for job training and re-training to those who need it.

Supporting Working Families: Over the last five years, the President has worked hard to help working families. Working with Congress, the Administration has cut taxes for 15 million working families, provided a tax credit to help families raise their children, ensured that 25 million Americans a year can change jobs without losing their health insurance, made it easier for the self-employed and those with pre-existing conditions to get health insurance, provided health care coverage for up to five million uninsured children, raised the minimum wage, and provided guaranteed time off for workers who need to care for a newborn or address the health needs of a family member.

Now, with his new Child Care Initiative, the President is determined to provide the help that families need when it comes to finding safe, high-quality, affordable child care. Parents should know that, when they go to work, their children are in safe, healthy environments. The President also proposes to address the problems faced by a particular group of working families -- legal immigrants. In signing the 1996 welfare reform law, the President said that he would try to restore the cuts in benefits for legal immigrants that were not only harsh and unnecessary but that had nothing to do with the fundamental goal of welfare reform -- to move people from welfare to work while protecting children. The budget restores Food Stamps to 730,000 legal immigrants and let States provide health insurance to the children of legal immigrants.

Strengthening Health Care: This past year, the President improved the health care of millions of Americans. Working with Congress, the Administration strengthened Medicare by extending the life of the trust fund until at least 2010 while investing in preventive benefits, introducing more choice of health plans, and strengthening the expanding array of activities to combat fraud and abuse. In addition, the Administration extended health care coverage to up to five million uninsured children, created the Advisory Commission on Consumer Protection and Quality in the Health Care Industry, and later endorsed the Commission's Health Care Consumer Bill of Rights.

With this budget, the President proposes to build on these achievements on a host of important fronts. The President wants to work with Congress to enact national bipartisan tobacco legislation; nothing is more potentially important to the health of our people, particularly children. The budget also proposes to expand health care coverage for some of the most vulnerable Americans aged 55 to 65, to enroll more eligible children in Medicaid, to provide for unprecedented levels of investment in health research, to expand access to powerful AIDS therapies, to expand access to cancer clinical trials, to increase funds for substance abuse treatment and prevention, and to help reduce health-related disparities across racial and ethnic groups.

Protecting the Environment: Last year was a remarkable one for the environment, and the President is determined to build on the progress. Led by the Vice President, the Administration reached an historic international agreement in Kyoto that calls for cuts in greenhouse gas emissions. The Administration also issued new, more protective air quality standards to better safeguard public health; strengthened our citizens' right to know about toxic chemical releases; continued to protect our natural treasures, such as Yellowstone National Park and Florida's Everglades; and made further progress toward the President's goal of cleaning up 900 hazardous waste sites under the Superfund by the end of the year 2001.

The budget proposes an Environmental Resources Fund for America that will support increases for many key environmental programs. It provides for more construction, maintenance, and land acquisition for national parks, forests, refuges, and other public lands; for a new effort to improve the quality of our water; for improvements to community drinking water and wastewater facilities; and for continuing the Administration's efforts to clean up abandoned hazardous waste sites. The budget includes a five-year $6 billion program to prevent global warming, and more resources to protect endangered species, control pollution, and preserve the global environment.

Investing in Infrastructure: The President proposes a Transportation Fund for America, reflecting his commitment to provide the resources to ensure that our transportation infrastructure remains safe, integrated, and efficient enough to serve our growing needs. Investment in infrastructure is good for America because it helps grow the economy, improve safety and public health, strengthen our competitiveness abroad, support our national security, and increase the mobility, access, and choice for Americans who need to travel.

The President believes that we must build upon our vast network of roads, highways, and bridges to meet the demands of the next century for a system that links our various modes of travel, that is cleaner and safer, and that helps bring together and support our urban and rural communities. The budget maintains the Administration's record support for transportation, and the Fund includes all of the Transportation Department's highway, highway safety, transit, and air transportation programs.

Promoting Research: Scientific and technological advances have created a world vastly different from the one our grandparents knew. They have helped generate huge leaps in the speed and economy of transportation, enormous increases in farm productivity, lightning-fast flows of information and services across national borders, and advances in treating and preventing diseases and protecting the environment.

Because the President is committed to America's continued leadership in science and technology, the budget proposes a Research Fund for America, from which many important Federal investments will flow. It includes record increases for the National Institutes of Health, higher funding for the National Science Foundation, new resources to address global climate change, and a wide variety of investments in basic and applied research. These investments are vital; they help the Nation to create new knowledge, train more workers, spur new jobs and industries, address our health care challenges, strengthen our understanding of environmental problems, better educate our children, and maintain a strong national defense.

Enforcing the Law: The President's anti-crime strategy is working. Serious crime is down five years in a row and, in 1996, the Nation witnessed the largest drop in violent crime in 35 years. But, because crime remains unacceptably high, the President believes that we must go further.

The budget expands the Administration's community policing (COPS) program, which is already putting 83,000 more police on the streets toward the President's goal of 100,000 by the year 2000. The budget also proposes a new Community Prosecutors Initiative to help prosecutors prevent crimes from occurring, rather than simply prosecuting criminals after the fact. And it provides the necessary funds to prevent violence against women, to help States and Indian Tribes build prisons, and to address the growing law enforcement crisis on Indian lands. To boost the Administration's efforts to control illegal immigration, the budget provides the resources to strengthen border enforcement in the South and West, to remove illegal aliens, and to expand efforts to verify whether newly hired non-citizens are eligible for jobs. To combat drug use, particularly among young people, the budget expands programs that stress treatment and prevention, law enforcement, international assistance, and interdiction. It builds on the Administration's innovative Drug Courts initiative, proposes School Drug Prevention Coordinators for schools, supports local efforts that target drug-using offenders, expands drug testing, and strengthens the Administration's efforts to make ports and borders more secure from drugs while disrupting drug trafficking organizations overseas.

Strengthening the American Community: Most Americans are enjoying the fruits of our strong economy. But while many urban and rural areas are doing better, too many others have grown disconnected from our values of opportunity, responsibility, and community. Working with State and local governments and the private sector, the President is determined to help bring distressed areas back to life, to replace despair with hope.

The budget expands the President's national service program, giving more Americans the chance to serve their country and help solve problems at the local level while earning money for college. The budget proposes to create more Empowerment Zones and Enterprise Communities that offer tax incentives and direct spending to encourage the kind of private investment that creates jobs, and to provide more capital for lending through the President's Community Development Financial Institutions program. The budget also expands opportunities for homeownership, provides more funds to enforce the Nation's civil rights laws, maintains the Administration's Government-to-Government commitment to Native Americans, and strengthens the partnership that the President has begun with the District of Columbia.

Advancing United States Leadership in the World: Because America continues to have a tremendous stake in world affairs, the budget proposes the necessary funds to maintain national security, to conduct our diplomacy, to promote democracy and free markets abroad, and to increase exports. Last year, the Administration worked with Congress to increase international affairs spending. But, Congress faces an unfinished agenda to provide financial support for, and fulfill America's obligations to, a number of international organizations that benefit our economy and serve other objectives, including the International Monetary Fund (IMF), the United Nations system, and the multilateral development banks.

Congress should continue to support the decisive action of the IMF as well as our leadership in that institution by providing the supplementary contingent IMF funding that the Administration has sought and replenishing the IMF's basic financial resources. Congress also should give the President traditional trade negotiating authority to help fuel our surging exports into the next century. To enhance national security, the budget maintains large-scale funding to support the Middle East peace process, continues assistance to Bosnia to carry out the Dayton Accords, supports NATO expansion, and increases aid to the New Independent States of the former Soviet Union to support the development of democracy and free markets. The budget also proposes a major initiative to provide critical, targeted assistance to African countries that are undertaking difficult economic reforms, increases counter-narcotics aid to Latin American countries, and supports the Summit of the Americas.

Supporting the World's Strongest Military Force: Our military serves as the backbone of our national security strategy, and the President is committed to maintain a strong and capable military that protects our freedoms and our global leadership role as we approach the 21st Century.

The budget continues the Administration's plan to complete the careful resizing of our military forces, to fully support military readiness, to strengthen quality of life programs for our armed forces, and to provide increased funding to modernize our forces as new technologies become available after the turn of the century. The budget reflects the recommendations of the Quadrennial Defense Review and of the Defense Department's recent Defense Reform Initiative to achieve a leaner, more efficient, and more cost-effective organization by improving management and business practices. To implement these improvements, the Defense Department will send legislation to Congress in conjunction with this budget, including a request for two more rounds of base closures and realignments.

PRESIDENT CLINTON'S FY 1999 BALANCED BUDGET
THE FIRST BALANCED BUDGET IN 30 YEARS

February 2, 1998

"Tonight, I come before you to announce that the federal deficit -- once so incomprehensibly large that it had 11 zeroes -- will be, simply, zero. I will submit to Congress for 1999 the first balanced budget in 30 years."

President Bill Clinton
January 27, 1998

THE FIRST BALANCED BUDGET IN THREE DECADES. The President's FY99 budget maintains our fiscal discipline while investing in the critical needs of our people. In only the second year of the historic balanced budget agreement that included $900 billion in net 10-year deficit savings and nearly half a trillion dollars in entitlement savings over 10 years, the President's plan reaches balance three years earlier. And it does by paying for every new initiative dollar by dollar -- consistent with the 1997 Balanced Budget Agreement.

THE PRESIDENT'S FY 1999 BUDGET MAINTAINS OUR FISCAL DISCIPLINE WHILE INVESTING IN THE CRITICAL NEEDS OF OUR PEOPLE. This budget builds on the President's record of fiscal discipline. In 1992, the deficit was $290 billion, job growth was weak, and the unemployment rate was 7.5 percent. The President's 1993 Economic Plan helped cut the deficit 92 percent, from $290 billion in 1992 to $23 billion in 1997 -- its lowest level since 1974. This year, our deficit is projected to be $10 billion, and heading lower. The economy has produced over 14 million new jobs; and the unemployment rate is as low as it has been in 24 years.

- **This budget implements the historic balanced budget agreement reached last year with Congress.** That agreement included $900 billion in net 10-year deficit savings and nearly half a trillion dollars in entitlement savings over 10 years.

- **In a historic shift, this budget delivers surpluses over the next ten years of $1.1 trillion -- reserved pending Social Security reform.**

- **Everything is paid for dollar by dollar consistent with the 1997 Balanced Budget Agreement.**

SOCIAL SECURITY FIRST. Over the next two years, President Clinton is firmly committed to strengthening Social Security for the 21st century. He therefore proposes that we should not spend any of the projected budget surpluses on anything else until we have reformed Social Security. This proposal, which continues the fiscally responsible policies that have been the hallmark of this Administration, is intended to reserve the surpluses in case they are needed for Social Security reform.

THE PRESIDENT'S BUDGET INCLUDES NEW INVESTMENTS AND TAX CUTS TARGETED TO THE NEEDS OF WORKING FAMILIES, SUCH AS EDUCATION, CHILD CARE, HEALTH CARE, AND THE ENVIRONMENT. We are keeping our fiscal discipline and paying for every initiative dollar for dollar. These initiatives include: Reducing **class size** and funding **100,000 new teachers** by 2005; a new **school construction** initiative; more services for **dislocated workers**; housing and urban initiatives, such as expanding the **Low-Income Housing Tax Credit**, flexible funding for **Empowerment Zones** and **welfare-to-work housing vouchers; child care** tax credits and investments; new options for Americans ages 55-65 to obtain health insurance by buying into **Medicare**; and tax incentives and R&D to **cut greenhouse gas emissions.**

PRESIDENT CLINTON AND VICE PRESIDENT GORE:
THE FIRST BALANCED BUDGET IN 30 YEARS

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THE FIRST BALANCED BUDGET IN THREE DECADES. The President's FY99 budget maintains our fiscal discipline while investing in the critical needs of our people. The President's plan reaches balance three years earlier than expected. <u>And it does so by paying for every initiative dollar by dollar consistent with the 1997 Balanced Budget Agreement.</u>

MAINTAINING OUR FISCAL DISCIPLINE AND INVESTING IN OUR PEOPLE. This budget builds on the President's record of fiscal discipline. In 1992, the deficit was $290 billion, job growth was weak, and the unemployment rate was 7.5 percent. The President's 1993 Economic Plan helped cut the deficit 92 percent, from $290 billion in 1992 to $23 billion in 1997 -- its lowest level since 1974. This year, our deficit is projected to be $10 billion, and heading lower. The economy has produced over 14 million new jobs; and the unemployment rate is as low as it has been in 24 years.

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- **Everything is paid for *dollar by dollar* consistent with the 1997 Balanced Budget Agreement and President Clinton's successful record of fiscal discipline.**

SAVE SOCIAL SECURITY FIRST

- **Over the next two years, President Clinton is firmly committed to strengthening Social Security for the 21st century.** He proposes that we should not spend any of the projected budget surpluses until we have reformed Social Security. This proposal, which continues the fiscally responsible policies that have been the hallmark of this Administration, is intended to reserve the surpluses in case they are needed for Social Security reform.

INVESTING IN THE FUTURE. The President's budget maintains our critical priorities by increasing our investments in health care, education and training, the environment and science and technology. It also establishes important new initiatives, which are all paid for, to help prepare America for the 21st century.

Education/Training/Child Care:
- **Class Size.** Aims to reduce class size to 18 in grades 1-3 by funding 100,000 new teachers by 2005.

- **Head Start.** Increases Head Start funding by $305 million for FY99; Head Start has increased 68%, from $2.8 billion in FY93 to $4.7 billion in FY99. In addition, the numberof slots in Early Head Start is doubled over the next 5 years.

- **After-School Programs.** To provide after-school care for 500,000 children per year, the budget includes an $800 million five-year investment to expand the 21st Century Community Learning Center program.

- **$7.5 Billion Child Care Block Grant Over 5 Years.** Doubles the number of low-income families who receive child care subsidies to more than 2 million by the year 2003.

- **Child Care and Early Learning.** Establishes an Early Learning Fund with $3 billion over five years to provide grants to communities to promote early childhood development and improve child care quality for young children.

- **Education Opportunity Zones.** $1.5 billion over five years for competitive grants to about 50 urban and rural districts who adopt a school reform agenda to increase student learning and implement accountability measures.

- **Dislocated Workers.** Increases funding in FY99 by $100 million to $1.5 billion -- nearly tripling the funding since FY93. Provides services to nearly 700,000 dislocated workers.

Health Care:

- **Consumer Bill of Rights.** Protects patients by guaranteeing access to needed health care specialists, access to emergency room services, an assurance that medical records are confidential, and access to a meaningful appeals process for to resolve differences with health plans and health care providers.

- **Biomedical Research.** Provides unprecedented increases of more than $1.1 billion of biomedical research with an emphasis on cancer research.

- **Ryan White AIDS program**. Invests $165 million more in the to find ways to prevent and treat diseases -- increasing funding 241% since FY 1993.

- **Expanding Medicare Coverage.** Provides new options for Americans ages 55 to 65 to obtain health insurance by buying into Medicare through a premium that ensures that this policy is self-financed.

Environment:

- **Initiative To Cut Greenhouse Gas Emissions.** A dramatic new $6.3 program of tax cuts and R&D aimed at cutting greenhouse gas emissions. Package contains $3.6 billion in tax cuts for energy efficient purchases and renewable energy, and $2.7 billion in additional R&D spending.

- **Clean Water Initiative.** Targets the 40% of the nation's waterways still unsafe for fishing and swimming by assisting states and communities in implementing programs and incentives to adopt practices that protect water quality.

Community Empowerment:

- **Welfare-to-Work Housing Vouchers.** Includes $283 million for 50,000 new vouchers for people who need housing assistance to make transition from welfare to employment.

- **Flexible Funding for Second-Round Empowerment Zones.** Provides $150 million over ten years in mandatory funding for second-round urban and rural EZs. Funds could be used for economic development and housing projects, project-based rental assistance, job training and other social services.

- **CDFI Expansion.** The Administration is requesting a $45 million increase in CDFI funding (from $80 million to $125 million). The increased funding also would be used in part to accelerate development of a secondary market for CDFI loans.

- **Community Empowerment Fund.** $400 million community empowerment fund that will help local governments attract more businesses and jobs to poor and underserved neighborhoods by encouraging the standardization of economic development lending, a first step in creating a secondary market for such loans. It will provide capital to businesses who recognize the potential and the possibilities of the inner cities.

Drugs

- **COPS.** Funds 17,000 more police, helping to move towards the President's goal of 100,000 new police by the year 2000.

- **$1 Billion Increase in Anti-Drug Budget.** Budget proposes to increase funding to $16.9 billion in FY99 consisting of increases in drug treatment, prevention, domestic law enforcement, interdiction, and international programs.

- **Community Prosecutors.** Budget provides grants of $100 million for hundreds of communities to hire as many as 1,000 new prosecutors.

- **Juvenile Crime Strategy.** Calls on Congress to pass a $245 billion comprehensive anti-gang and youth violence strategy including preventing under 21s from buying guns, new prosecutors and probation officers, tough, new sentences on drug dealers, funding to keep schools open later and promote anti-truancy initiatives and curfews.

TAX CUTS TARGETED TO THE NEEDS OF WORKING FAMILIES:

The President's budget provides about **$24.6 billion of tax cuts over five years** to:

- **Making Child Care More Affordable. (1)** <u>*The Child and Dependent Care Tax Credit*</u> would be increased for 3 million working families, wiping out income tax liability for most families with incomes below 200% of the poverty line (about 35,000 for a family of four) who have maximum allowable child care expenses. **(2)** A <u>*25% tax credit*</u> for building, operating or contracting costs is also created to encourage businesses to provide child care for their employees.

- **Climate Change Initiative -- Increasing Energy Efficiency and Improving the Environment: (1)** Tax credits of $3,000 to $4,000 for fuel efficient cars; **(2)** tax credits of up to $2000 for rooftop solar systems and new energy efficient homes; **(3)** a five-year extension of the tax credit for electricity produced by wind and biomass.

- **Promoting Expanded Retirement Savings: (1)** A three-year tax credit of up to $2,000 for small businesses that establish pension plans; **(2)** a new, simplified defined benefit plan for small businesses and **(3)** and enhancing workers' ability to make contributions to IRAs by payroll deduction.

- **Expanding Education Incentives: (1)** *School Construction* -- federal tax credits to pay interest on nearly $22 billion in bonds to build and modernize over 5,000 public schools; **(2)** *Employer-Provided Educational Assistance* -- Extends and expands this tax exclusion.

- **Expanding and Improving the Supply of Available Low-Income Housing.** Calls for increasing the per capita cap on the credit 40% which will mean 150,000 to 180,000 additional rental housing units in the next five years.

PRESIDENT CLINTON'S FY 1999 BALANCED BUDGET
THE FIRST BALANCED BUDGET IN 30 YEARS
Summary Document: February 2, 1998

THE FIRST BALANCED BUDGET IN THREE DECADES. The President's FY99 budget maintains our fiscal discipline while investing in the critical needs of our people. In only the second year of the historic balanced budget agreement that included $900 billion in net 10-year deficit savings and nearly half a trillion dollars in entitlement savings over 10 years, the President's plan reaches balance three years earlier. <u>And it does so by paying for every initiative dollar by dollar consistent with the 1997 Balanced Budget Agreement.</u>

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SOCIAL SECURITY FIRST

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INVESTING IN THE FUTURE. The President's budget maintains our critical priorities by increasing our investments in health care, education and training, the environment and science and technology. It also establishes important new initiatives, which are all paid for, to help prepare America for the 21st century.

Education/Training/Child Care:

- **Class Size.** Aims to Reduce class size to 18 in grades 1-3 by funding 100,000 new teachers by 2005.
- **Head Start.** Increases Head Start funding by $305 million for FY99; Head Start has increased 68%, from $2.8 billion in FY93 to $4.7 billion in FY99. In addition, the number of slots in Early Head Start is doubled over the next 5 years.
- **After-School Programs.** To provide after-school care for 500,000 children per year, the budget includes an $800 million five-year investment to expand the 21st Century Community Learning Center program.
- **$7.5 Billion Child Care Block Grant Over 5 Years.** Doubles the number of low-income families who receive child care subsidies to more than 2 million by the year 2003.
- **Child Care and Early Learning.** Establishes an Early Learning Fund with $3 billion over five years to provide grants to communities to promote early childhood development and improve child care quality for young children.
- **Education Opportunity Zones.** $1.5 billion over five years for competitive grants to about 50 urban and rural districts who adopt a school reform agenda to increase student learning and implement accountability measures.
- **Dislocated Workers.** Increases funding in FY99 by $100 million to $1.5 billion -- nearly tripling the funding since FY93. Provides services to nearly 700,000 dislocated workers.

Health Care:

- **Consumer Bill of Rights.** Protects patients by guaranteeing access to needed health care specialists, access to emergency room services, an assurance that medical records are confidential, and access to a meaningful appeals process for to resolve differences with health plans and health care providers.
- **Biomedical Research.** Provides unprecedented increases of more than $1.1 billion of biomedical research with an emphasis on cancer research
- **Ryan White AIDS program.** Invests $165 million more in the to find ways to prevent and treat diseases -- increasing funding 241% since FY 1993.
- **Expanding Medicare Coverage.** Provides new options for Americans ages 55 to 65 to obtain health insurance by buying into Medicare through a premium that ensures that this policy is self-financed.

Environment:

- **Initiative To Cut Greenhouse Gas Emissions.** A dramatic new $6.3 program of tax cuts and R&D aimed at cutting greenhouse gas emissions. Package contains $3.6 billion in tax cuts for energy efficient purchases and renewable energy, and $2.7 billion in additional R&D spending.
- **Clean Water Initiative.** Targets the 40% of the nation's waterways still unsafe for fishing and swimming by assisting states and communities in implementing programs and incentives to adopt practices that protect water quality.

Community Empowerment:

- **Welfare-to-Work Housing Vouchers.** Includes $283 million for 50,000 new vouchers for people who need housing assistance to make transition from welfare to employment.
- **Flexible Funding for Second-Round Empowerment Zones.** Provides $150 million over ten years in mandatory funding for second-round urban and rural EZs. Funds could be used for economic development and housing projects, project-based rental assistance, job training and other social services.
- **CDFI Expansion.** The Administration is requesting a $45 million increase in CDFI funding (from $80 million to $125 million). The increased funding also would be used in part to accelerate development of a secondary market for CDFI loans.
- **Community Empowerment Fund.** $400 million community empowerment fund that will help local governments attract more businesses and jobs to poor and underserved neighborhoods by encouraging the standardization of economic development lending, a first step in creating a secondary market for such loans. It will provide capital to businesses who recognize the potential and the possibilities of the inner cities.

Drugs

- **COPS.** Funds 17,000 more police, helping to move towards the President's goal of 100,000 new police by the year 2000.
- **$1 Billion Increase in Anti-Drug Budget.** Budget proposes to increase funding to $16.9 billion in FY99 consisting of increases in drug treatment, prevention, domestic law enforcement, interdiction, and international programs.
- **Community Prosecutors.** Budget provides grants of $100 million for hundreds of communities to hire as many as 1,000 new prosecutors.
- **Juvenile Crime Strategy.** Calls on Congress to pass a $245 billion comprehensive anti-gang and youth violence strategy including preventing under 21s from buying guns, new prosecutors and probation officers, tough, new sentences on drug dealers, funding to keep schools open later and promote anti-truancy initiatives and curfews.

TAX CUTS TARGETED TO THE NEEDS OF WORKING FAMILIES:

The President's budget provides about **$24.6 billion of tax cuts over five years** to:

- **Making Child Care More Affordable. (1)** *The Child and Dependent Care Tax Credit* would be increased for 3 million working families, wiping out income tax liability for most families with incomes below 200% of the poverty line (about 35,000 for a family of four) who have maximum allowable child care expenses. **(2)** A *25% tax credit* for building, operating or contracting costs is also created to encourage businesses to provide child care for their employees.
- **Climate Change Initiative -- Increasing Energy Efficiency and Improving the Environment: (1)** Tax credits of $3,000 to $4,000 for fuel efficient cars; **(2)** tax credits of up to $2000 for rooftop solar systems and new energy efficient homes; **(3)**

a five-year extension of the tax credit for electricity produced by wind and biomass.

- **Promoting Expanded Retirement Savings: (1)** A three-year tax credit of up to $2,000 for small businesses that establish pension plans; **(2)** a new, simplified defined benefit plan for small businesses and **(3)** and enhancing workers' ability to make contributions to IRAs by payroll deduction.
- **Expanding Education Incentives: (1)** *School Construction* -- federal tax credits to pay interest on nearly $22 billion in bonds to build and modernize over 5,000 public schools; **(2)** *Employer-Provided Educational Assistance* -- Extends and expands this tax exclusion.
- **Expanding and Improving the Supply of Available Low-Income Housing.** Calls for increasing the per capita cap on the credit 40% which will mean 150,000 to 180,000 additional rental housing units in the next five years.

PRESIDENT CLINTON'S RECORD ON DEFICIT REDUCTION

- **CUT THE DEFICIT BY 92 PERCENT.** President Clinton has reduced the budget deficit by 92 percent -- from $290 billion in FY 1992 to $22 billion in FY 1997. This year the budget deficit is projected to be $10 billion and heading lower. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

- **LOWEST DEFICIT SINCE 1970 AND FIRST PROPOSED BALANCED BUDGET SINCE 1969.** The deficit has fallen from 4.7 percent of GDP in FY 1992 to 0.3 percent in FY 1997 -- the lowest for any year since 1970. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

- **LOWEST DEFICIT OF ANY MAJOR ECONOMY EXCEPT FOR CANADA.** The total U.S. deficit in 1997 as a percentage of the economy was lower than for any other major country except for Canada. [OECD, *Economic Outlook*, December 1997.]

- **MAKING GOVERNMENT MORE EFFICIENT.** Federal employment has fallen by 318,000 from its 1993 base and is at its lowest level in three decades. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

AS A RESULT OF PRESIDENT CLINTON'S EFFORTS TO REDUCE THE DEFICIT, ECONOMIC PERFORMANCE HAS IMPROVED DRAMATICALLY:

- **LOWER INTEREST RATES LEADING TO INVESTMENT BOOM.** President Clinton's 1993 Economic Plan cut the deficit and helped cut long-term interest rates and strengthen the economy. Under President Clinton, the 30-year interest rate has averaged 6.9 percent -- down from 8.2 percent under President Bush and 10.3 percent under President Reagan. And with lower interest rates, businesses have invested in the future: business investment has grown by 11 percent per year under President Clinton -- faster than any Administration since John F. Kennedy was President. [Based on data from the Bureau of Economic Analysis, Department of Commerce.]

- **EMPLOYMENT BOOM.** Since January 1993, the economy has added more than 14 million new jobs -- including nearly 2 million new jobs in manufacturing and construction combined. [Based on data from the Bureau of Labor Statistics, Department of Labor.]

- **THE LOWEST COMBINED RATE OF UNEMPLOYMENT AND INFLATION SINCE 1967.** In 1997, the combined rate of unemployment and inflation will the lowest in 30 years. And under President Clinton the combined rate of unemployment and inflation has been the lowest since Lyndon Johnson was President. [Based on data from the Bureau of Labor Statistics, Department of Labor.]

EXPERTS AGREE THAT ECONOMIC PERFORMANCE HAS BEEN REMARKABLE:

- ✔ ***Business Week*****:** "Clinton's 1993 budget cuts, which reduced projected red ink by more than $400 billion over five years, sparked a major drop in interest rates that helped boost investment in all the equipment and systems that brought forth the New Age economy of technological innovation and rising productivity." [5/19/97]

- ✔ **Alan Greenspan, Federal Reserve Chairman, 2/20/96**: The deficit reduction in the President's 1993 Economic Plan was "an unquestioned factor in contributing to the improvement in economic activity that occurred thereafter."

THE FACTS ON GOVERNMENT SPENDING UNDER PRESIDENT CLINTON

SPENDING IS LOWER TODAY THAN UNDER REAGAN OR BUSH:

- **FEDERAL SPENDING WAS LOWER IN 1997 -- AND IS EXPECTED TO REMAIN LOWER IN 1998 -- THAN IN ANY YEAR SINCE 1974.** Federal outlays as a share of GDP in 1997 were 20.1 percent -- lower than in any year since 1974. And current projections suggest a slight decrease in outlays as a percent of GDP during 1998. Outlays as a share of GDP under President Clinton have been a smaller share of GDP than under Reagan or Bush. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

  ⇒ **SPENDING GROWTH LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH**

	Federal outlays (% of GDP)	Real growth in Federal outlays (percent per year)
CLINTON	20.1 [1997]	0.5
BUSH	22.5 [1992]	2.6
REAGAN	22.5 [1988]	2.6

[Based on data from OMB, *FY 1999 Budget*, February 1998.]

- **SINCE PASSAGE OF PRESIDENT CLINTON'S 1993 DEFICIT REDUCTION PACKAGE, EXPECTED GOVERNMENT SPENDING BETWEEN 1993 AND 2002 HAS FALLEN BY MORE THAN $1.8 TRILLION.** Compared to the spending path President Clinton inherited in 1993, total spending in 2002 is now projected to fall by 19 percent. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

- **GROWTH IN TOTAL FEDERAL SPENDING HAS BEEN LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH.** Real Federal outlays have grown by 0.5 percent per year under President Clinton -- lower than under President Bush (2.6 percent per year) or President Reagan (2.6 percent per year). [Based on data from OMB, *FY 1999 Budget*, February 1998.]

- **WHILE MAINTAINING CRUCIAL INVESTMENTS IN PEOPLE, REAL DISCRETIONARY SPENDING HAS FALLEN UNDER PRESIDENT CLINTON -- A BETTER RECORD THAN UNDER REAGAN OR BUSH.** Real discretionary outlays have *fallen* two percent per year under President Clinton -- under President Bush or Reagan real discretionary outlays *increased* one percent a year. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

- **NON-DEFENSE DISCRETIONARY SPENDING IS NOW A SMALLER SHARE OF THE ECONOMY THAN IN 11 OF THE 12 YEARS UNDER REAGAN OR BUSH.** Non-defense discretionary outlays are now lower than in 11 of the 12 Reagan-Bush years.

Non-defense discretionary outlays are expected to equal 3.4 percent of GDP in 1998. During all the Reagan-Bush years, this ratio dropped this low only once in 1989. [Based on data from OMB, *FY 1999 Budget*, February 1998.]

SOCIAL SECURITY

THE SOCIAL SECURITY SYSTEM. Since its inception in 1935, the Social Security system has proven to be an outstanding success in providing security for the retired and disabled, as well as their families. The elderly poverty rate has fallen from more than 35 percent in 1959 to just 10.8 percent in 1996. It currently provides benefits to about 45 million Americans, and keeps roughly 15 million of them out of poverty. And Social Security benefits represent more than 75 percent of income for elderly households in the bottom 40 percent of the income distribution.

THE LONG-RUN CHALLENGE. The Social Security system, however, is expected to face increasing strains, because the retirement of the baby boomers means that the number of retirees is expected to grow much faster than the number of workers. There are currently just over 3 workers who contribute for every Social Security beneficiary. By 2030, it is expected that there will be only 2 workers for every Social Security beneficiary. According to the intermediate projection of the Social Security Trustees Report, the retirement of the baby boomers is expected to cause the Social Security Trust Fund to start falling by 2019, and to be depleted by 2029 -- after which the Social Security system would be able to finance only 75 percent of current law benefits.

PRESIDENT CLINTON'S APPROACH TO SOCIAL SECURITY REFORM. President Clinton is strongly committed to strengthening Social Security over the next two years. His plan includes:

(1) <u>Putting Our Fiscal House in Order</u>. Before we could begin to address the long-run problems in Social Security, we first had to put our fiscal house in order. Under President Clinton's leadership, we have now done that. The budget deficit has fallen from $290 billion in 1992 to $22 billion last year, and President Clinton's FY 1999 budget will produce balance by next year.

(2) <u>Surpluses Reserved Pending Social Security Reform</u>. As the President emphasized in his State of the Union address, the projected budget surpluses should be reserved pending Social Security reform. Until we address the critical challenge of strengthening the Social Security system and ensuring retirement and disability security for America's hard-working families, the Administration believes that we should not use the projected surpluses for anything else.

(3) <u>Bipartisan Regional Conferences in 1998</u>. The President believes 1998 should be used to engage Americans in an inclusive national debate about Social Security reform. He challenges every American to attend a conference or forum on the issue -- or to organize and host one if there aren't any planned in a given area. The President has asked the AARP and the Concord Coalition to convene bipartisan and balanced regional conferences. The President or Vice President will attend three to four of these conferences, and will also be hosting a conference on private retirement savings in July. The President and Vice President also encourage other groups to organize conferences. The national dialogue should allow all Americans to express their views, and hear the views of others.

(4) <u>White House Conference</u>. At the end of the year, the President will host a bipartisan White

House Conference on Social Security as a culmination of the various conferences, forums, and discussions held throughout the year. The purpose of the White House conference is to bring together the lessons learned from the national dialogue.

(5) <u>Bipartisan Negotiations in January 1999</u>. Following the White House conference at the end of the year, the President and his team will begin negotiations in January 1999 with the bipartisan Congressional leadership over Social Security reform. The President is firmly committed to strengthening the Social Security system.

PRESIDENT CLINTON'S FY 1999 BALANCED BUDGET
TAX RELIEF FOR WORKING FAMILIES

A RECORD OF TAX RELIEF FOR WORKING FAMILIES. Beginning with the tax cut for 15 million working families in 1993, President Clinton has delivered tax relief to make it easier for working families to raise their children and send them to college. The new $500 Child Tax Credit the President pushed for and signed into law last year will help 27 million working families. The President's $1,500 HOPE Scholarship advances his goal of making access to two years of college universal. His Lifetime Learning Tax Credit will help 7.1 million college juniors and seniors, graduate students and working Americans upgrade their skills and education. Because of this strong record, the typical working family of four making the median income now faces the lightest federal tax burden in decades:

> *Consider a middle income family of four making about $53,720 this year. When President Clinton took office, this family paid 16.8 cents on each dollar of income to the federal government to cover income and payroll taxes. Since then, this tax burden has fallen, so that this year, the typical middle-income family will pay 15.5 cents on each dollar of income to the federal government -- the lowest federal tax rate in 20 years. And this burden will fall even further next year, as it reaches 15.1 percent.*

The budget takes the next step and provides $24.6 billion over five years and $56 billion over ten years in tax relief to:

MAKING CHILD CARE MORE AFFORDABLE.

- **The Child and Dependent Care Tax Credit** would be increased for 3 million working families, wiping out income tax liability for most families with incomes below 200% of the poverty line (about $35,000 for a family of four) who have maximum allowable child care expenses. These families will receive an average annual tax cut of $330 at a cost of $5.2 billion over five years.

- **New Business Tax Credits.** The budget also invests one-half billion dollars over five years in a 25 percent tax credit (up to $150,000) for annual building, acquisition, operational or contracting costs to encourage businesses to provide child care for their employees.

INCREASING ENERGY EFFICIENCY AND IMPROVE THE ENVIRONMENT. The budget contains $3.6 billion over the next 5 years in tax cuts for energy efficient purchases and renewable energy:

- **Tax Credits For Fuel Efficient Cars.** The tax package includes tax credits of $3,000 and $4,000 for consumers who purchase advanced-technology, highly fuel efficient vehicles -- expected to total $660 million over the next five years.

- **Tax Credits For Rooftop Solar Systems.** Another tax provision provides a 15 percent credit (up to $2,000) for purchases of rooftop solar equipment -- to provide incentives for meeting the Million Solar Roofs goal.

- **Other Tax Credits For Energy Efficiency.** The tax cuts also include a 20 percent credit (subject to a cap) for purchasing energy-efficient building equipment, a credit of up to $2,000 for purchasing energy-efficient new homes, an extension of the wind and biomass tax credit, and a 10 percent investment credit for the purchase of combined heat and power systems.

PROMOTING EXPANDED RETIREMENT SAVINGS.

- **Payroll Deduction IRAs.** Contributions of up to $2,000 made to an IRA through a payroll deduction would be excluded from the employee's income for tax purposes.
- **Tax Credit for Small Businesses.** To encourage and help small businesses establish pension plans for their employees, the budget also includes a three year tax credit. For the first year of the plan, the credit would be 50 percent of up to $2,000 in administrative and retirement education expenses associated with a new defined benefit plan (including the new SMART plan described below), 401(k), SIMPLE or other pension plan or payroll deduction IRA arrangement. For each of the second and third years, the credit would be 50 percent of up to $1,000 in such costs. The payroll deduction IRA and the tax credit cost $508 million over five years and $945 million over ten years.

- **A New Simplified Defined Benefit Plan for Small Businesses.** The budget also includes a new simplified defined benefit plan for small businesses. This new pension choice, the SMART plan, is designed to be easy to administer and to provide a guaranteed pension benefit to all eligible employees. The proposal costs $304 million over five years and $555 million over ten years.

EXPANDING EDUCATION INCENTIVES.

School Construction. To spur construction and rehabilitation of our public schools, the President proposes Federal tax credits to pay interest on nearly $22 billion in bonds at a cost of $5 billion over five years and $11.6 billion over ten years. Two types of bonds would be authorized: 1) School Modernization Bonds - special 15 year bonds with half targeted to the 100 school districts with the largest number of low-income children and the other half allocated to states; 2) Qualified Zone Academy Bonds -- bonds enacted last year, that encourage public school-business partnerships in high poverty areas, would be expanded.

Employer Provided Education Assistance. The budget also extends and expands the tax exclusion for employer-provided educational assistance. The current exclusion for assistance with undergraduate education is extended for one year to cover courses that begin before June 1, 2001. The tax exclusion is also expanded to assistance with graduate education. This proposal costs $1 billion over both five and ten years.

INCREASING THE LOW INCOME HOUSING TAX CREDIT. To expand and improve the supply of available low income housing, the budget raises the allocation of tax credits to states. Currently, the amount of credits a state can award annually is limited to $1.25 per capita. The President proposes to raise that limit to $1.75 per capita beginning in 1999 at a cost of $1.6 billion over five years and $6.7 billion over ten years. This increase will lead to an additional 150,000 to 180,000 units of affordable housing over five years.

EXTENDING KEY TAX INCENTIVES TO HELP CLEAN UP DISTRESSED COMMUNITIES, MOVE PEOPLE FROM WELFARE TO WORK AND ENCOURAGE RESEARCH AND EXPERIMENTATION:

- **Expensing of Brownfields Remediation Costs.** The budget would make permanent this tax incentive that allows certain environmental remediation costs to be immediately deducted.
- **Work Opportunity Tax Credit.** Set to expire on June 30, 1998, the budget extends this credit to cover employees who begin work before May 1, 2000.
- **Welfare-to-Work Tax Credit.** Designed to encourage employers to hire long-term family assistance recipients, this important credit would be extended for one year and would cover employees who begin work before May 1, 2000.

- **R & E Tax Credit.** To encourage research and experimentation, this credit would be extended for one year through June 30, 1999.

TAX CUTS ARE PAID FOR WITH REDUCTIONS IN UNWARRANTED TAX BENEFITS. ***For example, the budget proposes that firms allocate their export profits between domestic and foreign source income in proportion to their activity in the United States and abroad, to raise $6.6 billion over five years. The budget also proposes to modify reserve rules for annuity contracts and modify corporate owned life insurance rules to more closely reflect the actual economics.***

PRESIDENT CLINTON'S FY 1999 BALANCED BUDGET
EDUCATION: PREPARING OUR CHILDREN FOR THE 21ST CENTURY

MAINTAINING OUR COMMITMENT TO MAKING EDUCATION OUR NUMBER ONE PRIORITY. Building on the historic balanced budget agreement in 1997 which secured the largest education investment in 30 years and the largest investment in higher education since the G.I. Bill in 1945, the President's FY 1999 budget includes the following:

- **Small Classes with Qualified Teachers to Improve Reading in Grades 1-3.** President Clinton is proposing a $12.4 billion initiative over 7 years ($7.3 billion over 5 years) to help local schools provide small classes with qualified teachers in the early grades. This initiative will help ensure that every child receives personal attention, learns to read independently, and gets a solid foundation for further learning. The new initiative will reduce class size from a nationwide average of 22 in grades 1-3 to an average of 18, providing funds to help local school districts hire an additional 100,000 well-prepared teachers. The initiative will also provide funds to states and local school districts to test new teachers, develop more rigorous teacher testing and certification requirements, and train teachers in effective reading instruction practices. School districts will be accountable for demonstrating gains in reading achievement. These steps will help ensure that first through third grade students are receiving high-quality reading instruction in smaller classes from competent teachers.

- **Modern School Buildings to Improve Student Learning.** For students to learn, schools must be well-equipped and be able to accommodate smaller class sizes. To address these and other critical needs, President Clinton is proposing federal tax credits to pay interest on nearly $22 billion in bonds to build and renovate public schools. This initiative provides more than double the assistance of the Administration's earlier school construction proposal, which covered half the interest on an estimated $20 billion in bonds. The tax credits will cost the Treasury $5 billion over 5 years, and more than $10 billion over ten years. Of the $22 billion in bond authority, nearly $20 billion for a new School Modernization Bonds. Half of this bond authority will be allocated to the 100 school districts with the largest number of low-income children, and the other half will be allocated to the states.

- **Education Opportunity Zones: Helping Students in Poor Communities Reach High Standards.** This initiative will strengthen public schools and help students master the basic and advanced skills where the need is greatest: in high-poverty urban and rural communities where low expectations, too many poorly prepared teachers, and overwhelmed school systems create significant barriers to high achievement. The Education Department will select approximately fifty high-poverty urban and rural school districts with: (1) a demonstrated commitment to use high standards and tests as tools to identify and provide help to students, teachers and schools who need it; (2) a strategy to prevent students from falling behind by ensuring quality teaching, challenging curricula, and extended learning time; (3) programs to end social promotion and turn around failing schools; and (4) evidence of improved student achievement. Added investments in these communities will accelerate their progress and provide models of successful, standards-based reform for the nation. The President's initiative will invest $200 million in FY99, and $1.5 billion over 5 years, in raising achievement and sharing lessons learned with school districts around the country.

- **After-School Learning Opportunities.** The FY99 Budget includes a five-year, $1 billion investment in school-community partnerships that create or expand before - and after-school programs. The Department of Education's 21st Century Learning Center Program, funded at $40 million in FY98, would be expanded to $200 million per year. With a local matching requirement --aided by a $55 million gift from the C.S. Mott Foundation -- this initiative will leverage a total of $2 billion overall for after-school programs.

- **Reduce and Eliminate Student Loan Fees.** Saving students $3 billion over five years, the budget will phase out the fees that students pay on need-based loans (about 60 percent of all student loans), and will reduce fees on other loans by 25 percent. Until 1993, students lost up to 8 percent of their loans in fees to intermediaries and to the Federal government. Already reduced to 4 percent as a result of reforms enacted in 1993, the Administration's new plan would reduce fees on all loans to 3 percent in 1999, and on need-based loans to 2 percent in 2001, 1 percent in 2002, and eliminated completely in 2003.

- **Work-Study.** The Budget includes a $70 million increase in funding for the Federal Work-Study program, bringing the total number of participants to just over one million in the 1999-2000 school year -- reaching that goal one year earlier than planned. This represents a nearly 50 percent funding increase since 1996.

- **Education Technology.** The President's FY 1999 budget includes an increase of $137 million over the 1998 level to ensure that all children have access to the Internet, That teachers know how to use technology effectively, and to broaden access to high quality learning opportunities for adults using the Internet and other new technologies.

    - **Teacher Training in Technology.** This program will ensure that all new teachers entering the workforce can integrate technology effectively into the curriculum and can understand new styles of teaching and learning enabled by technology.

    - **Learning Anytime, Anywhere Initiative.** This initiative makes it easier for Americans who live in remote, rural areas, have a disability, or have competing family and work demands to have access to individualized up-to-date affordable education and training.

- **Early Intervention to Promote College Attendance.** President Clinton will soon announce a long-term effort to bring college opportunity to children in high-poverty areas by providing their families with early information about financial aid and appropriate academic preparation, as well as mentoring and other support services to help the children stay on track through high school graduation and into college.

ACCESS TO HEALTH INSURANCE FOR PEOPLE AGES 55 TO 65

BACKGROUND

Americans ages 55 to 65 face special problems of access and affordability. They face greater risks of health problems, with twice the chances of heart disease, strokes, and cancer as people aged 45 to 54. As people approach 65, many retire or shift to part-time work or self-employment as a bridge to retirement, sometimes involuntarily. Displaced workers aged 55 to 65 are much less likely than younger workers to be re-employed or re-insured through a new employer. As a result, more of them rely on the individual health insurance market. Without the benefits of having their costs averaged with younger people, as with employer-based insurance, these people often face high premiums.

Such access problems will increase, due to two trends: declines in retiree health coverage and the aging of the baby boom generation. Recently, businesses have cut back on offering health coverage to pre-65-year-old retirees; only 40 percent of large firms now do so. In several small but notable cases, businesses have dropped retirees' health benefits after workers have retired. These "broken promise" retirees lack access to employer continuation coverage and could have problems finding affordable individual insurance. Finally, the number of people 55 to 65 years old will rise from 22 million to 35 million by 2010 — or by 60 percent.

POLICY DESCRIPTION

The President has proposed three policy options to improve access to affordable health insurance for targeted groups of Americans ages 55 to 65.

1. Medicare Buy-In for People Ages 62 to 65

The centerpiece of this initiative is the Medicare buy-in for people ages 62 to 65.

- **Eligibility**: People ages 62 to 65 who do not have access to employer sponsored or Federal health insurance may participate.
- **Premium Payments**: Participants would pay two, geographically adjusted premiums:

  - **Pre-65 premium**: The pre-65 premium would be paid monthly between enrollment and when the participant turns age 65. It is the part of the full premium that represents the average Medicare costs for people in this age group. For 1999, it would be around $300 per month and would be updated annually.

  - **Post-65 premium**: The post-65 premium would be paid monthly beginning at age 65 until the beneficiary turns age 85. It is the part of the premium that represents the extra costs if participants are sicker than average. For 1999, it would be around $16 per month for each year of participation (about $48 per month for a person who buys in from age 62 to 65). At the time of enrollment, participants would be told their post-65 premium. The post-65 premium would be re-estimated for future participants to ensure that it reflects actual experience. This premium would be added to their Part B Medicare premium.

This two-part payment plan acts like a mortgage: it makes the up-front premium affordable but requires participants to pay back the Medicare "loan" with interest.

- **Enrollment**: Eligible people would apply at Social Security offices. They would bring proof of their age and eligibility for Medicare when they turn 65. They would do this within 63 days of either turning 62 or losing access to employer-based or Federal insurance (63 days is the maximum time period that a person can be uninsured and still be protected by Health Insurance Portability and Accountability Act).

- **Applicability of Medicare Rules**: Benefits and most protections would be, for paying participants, the same as those of Medicare beneficiaries. Participants would have the choice of fee-for-service or managed care. No Medicaid assistance would be offered to participants for premiums or cost sharing. Medigap policy protections would apply, but the open enrollment provision remains at age 65.

- **Disenrollment**: People could stop buying into Medicare at any time. People who disenroll would pay the post-65 premium as though they had been enrolled for a full year (e.g., a person who buys in for 3 months in 1999 would pay the post-65 premium as though they participated for 12 months). This is intended to act as a disincentive for temporary enrollment. People may only enroll once; for example, a participant may not disenroll at age 63 and re-enroll at age 64.

- **Medicare Trust Fund Impact**: According to the HCFA Actuaries (who also monitor the status of the Trust Funds for the Medicare Trustees), this initiative will not decrease the life of Medicare's Trust Funds. Premium collections will be allocated to the Trust Funds in proportion to spending from those Funds for participants. The Medicare Part B premium and managed care rates for regular Medicare beneficiaries will be calculated independently of the buy-in.

2. Medicare Buy-In for Displaced Workers Ages 55 and Over

In addition to people ages 62 to 65, a targeted group of 55 to 61 year olds could buy into Medicare. The Medicare buy-in would be the same as above, with the following exceptions.

- **Eligibility**: People would be eligible if they are between ages 55 and 61 and: (1) lost their job because their firm closed, downsized, or moved, or their position was eliminated (defined as being eligible for unemployment insurance) after January 1, 1998; (2) had health insurance on their previous job for at least one year (certified through the process created under HIPAA to guarantee continuation coverage); and (3) do not have access to employer sponsored, COBRA, or Federal health insurance. Spouses of these eligible people may also buy into Medicare.

- **Premium Payments**: Participants would pay one, geographically adjusted premium, with no Medicare "loan". This premium represents the average Medicare costs for people in this age group (one premium for age 55 to 59, another for 60 to 61) plus an add-on to compensate for some of the extra costs of participants who may be sicker than average. For 1999, the premium would be $400 per month and would be updated annually.

- **Disenrollment**: Like people ages 62 to 65, eligible displaced workers and their spouses must enroll in the buy-in within 63 days of becoming eligible. Participants continue to pay premiums until they voluntarily disenroll, gain access to employer-based insurance or turn 62 and become eligible for the more general Medicare buy-in. Once they disenroll, they may only re-enroll if they meet the eligibility rules again (e.g., are displaced again).

3. Employer Buy-In (COBRA Continuation Coverage) for Certain Retirees

The President would also help retirees whose former employer unexpectedly drops their retiree health insurance, leaving them uncovered and with few places to turn.

- **Eligibility**: Termination of retiree health benefits (i.e., they were covered but their employer ended that coverage) for retirees age 55 to 64 and their dependents would become a COBRA qualifying event.

- **Premium Payments**: Participants would pay 125 percent of the active employees' premium. This premium is higher than what most other COBRA participants pay (102 percent) to help offset the additional costs of participants.

- **Enrollment**: Participants would enroll through their former employer, following the same rules as other COBRA eligibles.

- **Disenrollment**: Retirees would be eligible until they turn 65 years old. Dependents would be eligible for other related periods of eligibility as other COBRA enrollees.

- **Federal Budget Impact**: There is no Federal budget impact because costs would be paid for by the private sector, primarily through retiree premium contributions.

Medicare Anti-Fraud, Waste and Abuse Initiatives

The Medicare buy-in would produce some costs primarily because Medicare is "loaning" participants part of the premium at ages 62 to 65. Even though in the long-run the buy-in for 62 to 65 year olds is self-financing, the President has proposed a set of anti-fraud, waste and abuse provisions to offset the up-front "loan" and any costs of the displaced workers' buy-in. These policies also are part of the President's ongoing effort to root out fraud and waste in Medicare. Five of the President's anti-fraud, waste and abuse initiatives produce scorable budget savings.

- **Eliminating Excessive Medicare Reimbursement for Drugs**. A recent report by the HHS Inspector General found that Medicare currently pays hundreds of millions of dollars more for 22 of the most common and costly drugs than would be paid if market prices were used. For more than one-third of these drugs, Medicare pays more than double the actual acquisition costs, and in one case pays as high as ten times the amount. This proposal would ensure that Medicare payments be provider's actual acquisition cost of the drug without mark-ups.

- **Eliminating Overpayments for Epogen.** A 1997 HHS Inspector General report found that Medicare overpays for Epogen (a drug used for kidney dialysis patients). This policy would change Medicare reimbursement to reflect current market prices (from $10 per 1,000 units administered to $9).

- **Eliminating Abuse of Medicare's Outpatient Mental Health Benefits.** The HHS Inspector General has found abuses in Medicare's outpatient mental health benefit — specifically, that Medicare is sometimes billed for services in inpatient or residential settings. This proposal would eliminate this abuse by requiring that these services are only provided in the appropriate treatment setting.

- **Ensuring Medicare Does Not Pay For Claims Owed By Private Insurers.** Too often, Medicare pays claims that are owed by private insurers because Medicare has no way of knowing the private insurer is the primary payer. This proposal would require insurers to report any Medicare beneficiaries they cover. Also, Medicare would be allowed to recoup double the amount owed by insurers who purposely let Medicare pay claims that they should have paid, and impose fines for failure to report no-fault or liability settlements for which Medicare should have been reimbursed.

- **Enable Medicare to Negotiate Single, Simplified Payments for Certain Routine Surgical Procedures.** This proposal would expand HCFA's current "Centers of Excellence" demonstration that enables Medicare to pay for hospital and physician services for certain high-cost surgical procedures through a single, negotiated payment. This lets Medicare receive volume discounts and, in return, enables hospitals to increase their market share, gain clinical expertise, and improve quality.

A series of other anti-fraud, waste and abuse actions are proposed as well *(see "Ten-Point Plan," announced by the President on January 24, 1998)*.

CHILDREN'S HEALTH OUTREACH

BACKGROUND

Last year, the President, with bipartisan Congressional support, signed into law the largest single expansion of children's health insurance in 30 years. The Children's Health Insurance Program (CHIP) provides funds for coverage of millions of working families' uninsured children. These families typically have too much income to qualify for Medicaid but too little to afford health insurance. But, to ensure the success of this program, an aggressive campaign to enroll eligible, uninsured children is needed.

In addition, over 3 million children are uninsured but eligible for Medicaid today. Educating families about their options and enrolling them in Medicaid has always been difficult, but it has recently become even more challenging. The number of children enrolled in Medicaid leveled off in 1995 and, according to the Census, dropped by 6 percent in 1996. While some of this decline may be due to the lower number of children in poverty, another reason for this decrease may be families' misunderstanding of their children's continued eligibility for Medicaid that the welfare reform explicitly guaranteed.

POLICY DESCRIPTION

To give States the tools and funding to find and enroll uninsured children, the President's 1999 Budget invests $900 million over 5 years in children's health outreach policies.

- **Fund for outreach**. In welfare reform, a special $500 million pool was created to fund efforts to improve Medicaid enrollment of families affected by welfare reform.

  The President's 1999 Budget includes a proposal that would expand the use of this fund. States would be able to receive a 90 percent matching rate for most outreach activities for <u>all</u> uninsured children, not just those who would have been eligible for welfare. The Federal funds to cover the extra matching (above Medicaid's regular matching amount) would come from this fund. In addition, the proposal would remove the sunset of the fund in 2000 and add another $25 million to assist States with increased outreach activities. This outreach fund would provide States with the resources to simplify enrollment systems, launch ad campaigns, educate community volunteers, and conduct other outreach campaigns to find and help enroll uninsured children.

- **Allowing immediate Medicaid coverage through schools, child care resource and referral centers, and other sites.** The Balanced Budget Act (BBA) of 1997 gave States a new option in Medicaid to grant "presumptive eligibility" to children. Certain children may receive immediate Medicaid coverage on a temporary basis while waiting for a full Medicaid eligibility determination.

  The President's 1999 Budget proposes to make this presumptive eligibility option more flexible and attractive to States. First, it would broaden the definition of who can determine presumptive eligibility to include sites such as schools, child care resource and referral centers, child support enforcement agencies and CHIP eligibility workers. These people are on the front lines in caring for children and could help educate and enroll them in Medicaid. Second, it would eliminate the requirement that States subtract the costs of presumptive eligibility from their CHIP allotments. Instead, these costs would be matched as a regular Medicaid State plan option. Both of these changes would give States greater incentives and flexibility for using this option.

In addition, the Department of Health and Human Services (HHS) has identified a number of ideas and options for States to simplify enrollment and integrate Medicaid and CHIP. This includes encouraging "out-stationing" of eligibility workers; using mail-in, simple applications; and using a joint application form for both Medicaid and CHIP. *(see letter to State Health Officials from HHS, dated January 23, 1998 for details).*

CANCER CLINICAL TRIALS FOR MEDICARE BENEFICIARIES

BACKGROUND

More than 40 percent of Americans will be diagnosed with cancer during their lifetime and more than 20 percent will die from it. Less than three percent of cancer patients participate in clinical trials. Moreover, Americans over the age of 65 make up half of all cancer patients, and are 10 times more likely to get cancer than younger Americans. Many scientists believe that higher participation in clinical trials could lead to faster development of therapies for more of those in need, as it often takes between three and five years to enroll enough participants in a cancer clinical trial to make the results scientifically legitimate and statistically meaningful. Older Americans and people with disabilities covered by Medicare frequently cannot participate in cutting-edge cancer clinical trials because the program does not pay for such treatments until they are established as standard therapies.

POLICY DESCRIPTION

The President has proposed a demonstration that would help Medicare beneficiaries access these cutting-edge cancer treatments.

- **Three-Year Demonstration Program for Medicare Beneficiaries.** The proposal would establish a three-year $750 million demonstration program for Medicare beneficiaries to cover the patient care costs associated with certain cancer treatment clinical trials (research studies with patients).

- **Covers Certain Cancer Clinical Trials.** Studies sponsored by the National Institutes of Health (NIH) would qualify. This includes:

  - Trials conducted by NCI programs that oversee and coordinate extramural clinical cancer research;
  - Trials conducted by Cooperative Groups programs;
  - NCI-sponsored trials at NCI-designated cancer centers;
  - NCI grants supporting clinical investigators; and
  - Clinical trials for cancer conducted at other NIH institutes.

After one year, the proposal also allows for amendments and/or additions to this set of trials by the Secretary of Health and Human Services within the same funding constraints, with the advice of the Institute of Medicine's National Cancer Policy Board.

- **Includes Report to Congress Following Three-Year Demonstration.** The proposal includes a review and evaluation of the demonstration by the Secretary of Health and Human Services, in consultation with the Institute of Medicine's National Cancer Policy Board, to consider whether to extend and/or expand the demonstration, no later than 30 months after enactment.

- **No Impact on the Medicare Trust Fund.** The demonstration would be administered by the Health Care Financing Administration, which administers Medicare, but would be funded by $750 million in receipts from tobacco legislation. It would therefore have no effect the financial condition on the Medicare Trust Fund.

- **Builds on the Bipartisan Legislation in the Congress.** Senator Mack and Senator Rockefeller and Representative Nancy Johnson have taken leadership in this area by proposing similar legislation that would provide cancer clinical trial coverage for Medicare beneficiaries.

FUNDS FOR AMERICA

The 1999 President's budget meets the challenge of investing in our future by proposing three new investment funds for America -- for research, the environment, and transportation -- to direct resources to these critical priorities.

- **The Research Fund for America** includes a broad range of investments in knowledge, including research programs of the National Institutes of Health; the Centers for Disease Control; the National Science Foundation; the National Aeronautics and Space Administration; the Energy, Agriculture, and Education Departments; the Commerce Department's National Institute of Standards and Technology; the Department of Agriculture; a multi-agency Climate Change Technology Initiative; and other programs.

- **The Environmental Resources Fund for America** encompasses the multi-agency Clean Water and Watershed Restoration Initiative; the new Land, Water, and Facility Restoration Initiative; the Agriculture Department's water and wastewater program for rural communities; and the Environmental Protection Agency's programs for cleaning up hazardous waste sites (within the Superfund) and for ensuring clean water and safe drinking water.

- **The Transportation Fund for America** includes the Transportation Department's highway, highway safety, and transit programs; the Flight 2000 free flight demonstration program; and FAA programs, including Airport Grants.

Together, these deficit-neutral funds provide $75.5 billion in 1999, a $4.7 billion increase over 1998 levels, all of which is requested as discretionary appropriations. The financing of these Funds applies the principle of pay-as-you-go in the Budget Enforcement Act -- which applies to mandatory spending -- to discretionary spending as well. All three funds are deficit neutral, and are financed with a combination of transfers within the discretionary caps and specific mandatory savings and revenue proposals. For 1999, the Funds are financed as follows:

- **The Research Fund for America** is financed through funds available under the discretionary caps, receipts from tobacco legislation, and savings from VA tobacco reform.

- **The Environmental Resources Fund for America** is financed through funds available under the discretionary caps and a renewed Federal tax to support the Superfund.

- **The Transportation Fund for America** is financed through funds available under the discretionary caps.

The use of mandatory offsets for discretionary spending is permissible under current scorekeeping rules and precedents. Mandatory offsets were used in both the FY 1996 (the sale of the U.S. Enrichment Corporation and debt collection reform) and FY 1997 (spectrum receipts and reform of the bank insurance funds) appropriations processes to fund important discretionary programs. Alternatively, Congress may choose to specifically authorize mandatory offsets for the purposes of these new Investment Funds. The Administration intends to work with the Congress to determine the best approach.

ENVIRONMENT AND NATURAL RESOURCES

The 1999 budget requests $31.5 billion in discretionary spending for high-priority environmental and natural resource programs, $1.4 billion, or five percent, more than the 1998 enacted level. The budget includes a major initiative to begin addressing climate change through higher research spending and new tax incentives to spur energy efficiency and develop low-carbon technologies. The budget also proposes an innovative, deficit-neutral financing mechanism for many key environmental restoration programs -- the Environmental Resources Fund for America -- that supports two additional initiatives: water quality, and land/facility restoration.

- **Climate Change Technology Initiative.** The budget provides a five-year, $6.3 billion package of tax incentives and research spending to reduce the Nation's emissions of greenhouse gases. The 1999 increase is $0.9 billion, roughly doubling the 1998 enacted level, as a down-payment on the President's five-year commitment. Approximately $2.7 billion of the $6.3 billion package is R&D spending to develop more fuel-efficient automobiles and trucks, energy-saving technologies for commercial buildings and homes, more energy-efficient industrial processes, and renewable energy sources such as biomass, wind, photovoltaics, and fuel cells. The remaining $3.6 billion of the $6.3 billion package are tax incentives to stimulate the adoption of more efficient technologies in buildings, vehicles, and power generation.

  For highly fuel-efficient vehicles, a tax credit of $4,000 would be available in the year 2003 for vehicles that get three times the base fuel economy for their class. A tax credit of $3,000 would be available in the year 2000 for vehicles that get two times the base fuel economy for their class. Both tax credits would phase out over time (the $3,000 credit by 2006; the $4,000 credit by 2010).

- **Environmental Resources Fund for America.** The budget proposes the Environmental Resources Fund for America, a mechanism to use PAYGO offsets to pay for increases in high priority discretionary environmental programs. The Fund provides $7.7 billion, 14 percent above 1998, for key environmental restoration programs. The Fund includes:

  Land, Water, and Facility Restoration Initiative: The budget proposes an increase of $92 million, eight percent more than in 1998 (and $961 million, 16 percent, over 5 years) for construction and maintenance for national parks, forests, refuges, public lands, and Indian schools. In addition, the initiative includes a 43 percent increase in land acquisition spending over the next five years from the Land and Water Conservation Fund (LWCF) and a 12 percent increase over five years from the Historic Preservation Fund. The LWCF request in 1999 is at the 1998 enacted level of $270 million, excluding the $699 million in one-time priority land acquisition funding in the 1997 budget agreement.

  Clean Water and Watershed Restoration Initiative: The budget includes $2.2 billion, a $568 million or 35 percent increase over 1998, for a multi-agency initiative to restore and protect the Nation's waterways by preventing polluted runoff, protecting public health, and ensuring community-based watershed management. Within this total, the budget proposes $143 million, the full amount authorized, for California Bay-Delta watershed restoration activities and $282 million, 24 percent more than in 1998, to continue the Administration's support for restoring the Everglades.

Water Quality Infrastructure: The budget proposes $1.85 billion in capitalization grants for Drinking Water State Revolving Funds (SRFs), which make low-interest loans to help municipalities address water quality. Of this amount, the budget includes $1.1 billion in grants for the Clean Water SRFs and $775 million for the Safe Drinking Water Act SRFs. The funding levels for the two SRFs make progress toward the Administration's goal of providing sufficient capital for the funds to provide $2.5 billion a year in financial assistance to municipalities over the long run.

USDA Water 2000: The budget provides funds for USDA's Water 2000 initiative -- to bring safe drinking water to rural Americans with some of the Nation's most serious problems of water availability, dependability, and quality -- within its $1.3 billion for rural water and wastewater grants and loans.

Superfund Cleanups: The budget proposes $2.1 billion for Superfund, a 40 percent increase over 1998. These funds will help meet the President's pledge to double the pace of Superfund cleanups, bringing the total number of cleanups to 900 by the end of 2001.

- **EPA's Operating Program.** The budget proposes $3.6 billion, an eight percent increase over 1998, for EPA's operating program, which includes most of EPA's research, regulatory, partnership grants (with States and Tribes), and enforcement programs. The program represents the backbone of the Nation's efforts to protect public health and the environment through sound science, standard setting, enforcement, and other means, ensuring that our water is pure, our air clean, and our food safe.

- **Brownfields Redevelopment Initiative.** The budget proposes to extend the President's Brownfields initiative, which promotes cleanup and redevelopment of abandoned land -- usually in inner cities -- contaminated from previous industrial use. EPA would receive $91 million (+$3 million over 1998) for grants to communities for site assessment and redevelopment planning, and for revolving loan funds to finance clean up efforts at the local level. HUD would receive $50 million, $25 million more than in 1998, to leverage State, local, and private funds for redeveloping cleaned-up sites and creating jobs. The budget also proposes to extend the targeted tax incentives to spur Brownfields cleanup.

- **Endangered Species Act.** The budget provides $113 million, a $36 million increase over 1998, for DOI's endangered species program, mainly for the Administration's new reforms to encourage private landowners to protect species. The budget also includes $40 million, a $10 million increase over 1998, for the National Oceanic and

Atmospheric Administration's endangered species program, mainly focused on habitat conservation planning.

- **Multilateral and Bilateral Environmental Assistance.** The budget proposes $322 million, three percent more than in 1998, for bilateral and multilateral environmental assistance. Bilateral assistance includes U.S. Agency for International Development (USAID) activities to address topics such as biodiversity, and to implement USAID's five-year, $1 billion commitment to help developing countries address climate change. Multilateral assistance funds U.S. voluntary contributions to the UN environmental system and other international environmental activities.

- **Global Environment Facility (GEF).** The budget provides $300 million for U.S. obligations to the GEF, which is the world's leading institution for protecting the global environment from climate change, extinction of valuable species, and the oceans' fish population. This proposal includes $193 million for U.S. contributions previously due and $107 million for an initial contribution to replenish the GEF between 1999 and 2002.

- **Federal Facilities Cleanup and Compliance.** The budget provides $6.1 billion, an increase of $275 million over 1998, for the Department of Energy's Environmental Management program for cleaning up Federal facilities contaminated with radioactive or hazardous waste left over from over 40 years of research, production, and testing of nuclear weapons. The budget also includes $4.4 billion for Department of Defense clean-up activities on military bases, a decrease of $450 million from 1998 largely due to the completion of one-time projects and clean-ups at closed military bases.

CLIMATE CHANGE TECHNOLOGY INITIATIVE

Last fall, the President announced a nine-point plan to begin addressing climate change, including a five-year, $5 billion package of tax incentives and R&D spending to spur energy efficiency and help develop low-carbon energy sources. With the historic agreement in Kyoto in December to reduce greenhouse gas emissions, the President is now proposing a $6.3 billion initiative over 5 years -- $2.7 billion in increased spending and $3.6 billion in tax incentives. For 1999, the budget includes $473 million in increased spending on climate-change related technologies ($1.292 billion vs. $819 million in 1998) and $421 million in tax incentives. The total first-year initiative is $894 million, and covers the following areas:

BUILDINGS

- ***Accelerate the deployment of existing technologies*** through better labeling of highly efficient technologies and appliances, through the Partnership for Advanced Technologies in Housing (PATH), and through tax credits for the purchase of certain highly efficient building equipment and for the purchase of highly-efficient new homes. PATH will be a cooperative effort by HUD, DOE, and EPA to work with the building industry and communities to develop and deploy the best available housing technologies and practices.

  The tax cuts include a 20 percent credit (subject to a cap) for purchasing energy-efficient building equipment, a credit of up to $2,000 for purchasing energy-efficient new homes, an extension of the wind and biomass tax credit, and a 10 percent investment credit for the purchase of combined heat and power systems.

- ***Million Solar Roofs.*** Last June the President announced an initiative to encourage the installation of one million solar hot water and photovoltaic installations on buildings over the next 10 years. DOE will fund cost-reduction R&D for rooftop solar systems, and will establish partnerships with communities and builders. In addition, the budget includes a 15 percent tax credit (up to $2,000) for purchases of rooftop solar equipment -- to provide incentives for meeting the Million Solar Roofs goal.

- ***DOE is also increasing its research*** on building systems modeling and on major components such as advanced heat-pumps, cooling systems, furnaces, and lighting.

INDUSTRY

- ***DOE will intensify its partnerships with industry*** on technology roadmaps and plans to reduce energy consumption and secure early reductions in greenhouse gas emissions. Partnerships currently exist with the aluminum, steel, glass, paper and forest products, metal casting, and chemicals industries. Cost-shared R&D with industry teams and consortia will be enhanced, and complementary efforts will be undertaken by EPA, USDA, and DOC (NIST), leading to voluntary industry greenhouse gas reductions.

- *Combined heat and power* is an advanced form of cogeneration that integrates power generation with the provision of useful thermal energy in a factory or building. This initiative combines R&D with a 10 percent tax credit for investments.

- *Fluorine recovery tax credits.* Tax credits are proposed for certain investments to remove or recycle fluorine and fluorocarbon compounds that are potent greenhouse gases.

TRANSPORTATION

- *The Partnership for a New Generation of Vehicles (PNGV)* is a government-industry effort to develop a safe, clean, and affordable car that gets up 80 miles per gallon. Production prototypes are planned for 2004. DOE is the largest player, followed by EPA, DOC, NSF, and DOT. In 1999, the combined request for PNGV-related work in those agencies is $277 million, up from $227 appropriated in 1998. The budget also proposes tax credits to encourage the purchase of this type of highly-efficient vehicle.

- *Tax Credits For Fuel Efficient Cars.* The budget includes tax credits of $3,000 and $4,000 for consumers who purchase advanced-technology, highly fuel efficient vehicles -- expected to total $660 million over the next five years.

- *Partnerships for Light and Heavy Trucks.* Similar government-industry efforts are proposed to develop more efficient diesel engines for both light trucks and heavy trucks.

- *Sustainable Transportation* promotes alternatives to single-occupancy vehicle travel, modeled after the approach adopted by Portland, Oregon. Programs in EPA and DOE will be coordinated with existing and planned DOT programs, and a tax law amendment is proposed to equalize treatment of employee parking and transit benefits.

ELECTRICITY

- *Renewable energy.* DOE will expand research partnerships in technologies such as wind, photovoltaics, geothermal, biomass, and hydropower to accelerate price reductions and improve performance. The 1999 budget proposes a $100 million increase for solar and renewable energy R&D -- a 37 percent increase over 1998 -- and a 5-year extension is proposed for the tax credit for electricity produced from wind and biomass.

- *Electricity Restructuring.* DOE and EPA will work with States and utilities to ensure that the restructuring does not impede the adoption of renewable energy technologies.

- *Nuclear power-plant life extension.* DOE will initiate an R&D effort addressing the critical technology needs to allow currently-operating nuclear power plants to safely extend their operating lifetimes by 10 to 20 years, which will make the transition to other low-carbon energy sources, such as solar and renewable energy, much easier.

- ***Innovative coal combustion technologies.*** In 1999, DOE will initiate a research program on innovative new approaches to coal combustion that offer the possibility of much lower carbon emissions than existing technologies.

CARBON REMOVAL AND SEQUESTRATION.

- ***Sequestration R&D.*** Research is being funded on biological and physical methods of removing carbon dioxide (CO_2) both from combustion gases and from the atmosphere.

CROSSCUTTING ANALYSIS AND RESEARCH

- ***Emissions credits, incentives, and trading.*** EPA will evaluate options for a domestic trading system and early reduction program in industry, based on industry consultations.

- ***Program and science assessments.*** DOE will lead efforts to assess the implications of new research results produced by the Global Change Research Program.

RESEARCH AND DEVELOPMENT

The 1999 budget provides a total of $78.2 billion for research and development (R&D) investments -- a three percent increase over 1998. Civilian R&D comprises 48 percent of this total, continuing a gradual increase in emphasis on non-defense R&D. The budget provides $16.7 billion for basic research and $16.4 billion for applied -- increases of eight and five percent, respectively, over the 1998 levels. The budget provides $14.5 billion for university-based research, or six percent more than in 1998. The centerpiece of the Administration's continuing commitment is the proposed Research Fund for America (RFA), from which many of the research dollars will now flow.

RESEARCH FUND FOR AMERICA

- Reflecting the President's commitment to ensuring long-term stability and growth for civilian research programs, the budget proposes a Research Fund for America that will support a wide range of Federal science and technology activities. The budget proposes $31 billion for the Fund, representing an eight-percent increase for these activities over the 1998 level. By 2003, the Fund will grow by 32 percent.

HIGHLIGHTS BY AGENCY

- **Department of Defense (DoD).** The budget provides $37 billion for DoD research and development -- a one-percent decrease from 1998. Highlights include the Dual Use Applications Program and the Commercial Operations and Support Savings Initiative, which promote development of dual-use technologies and adapt cost-saving commercial technology for military uses. The budget also supports Advanced Concept Technology Demonstrations, which harness technology and innovation for military use, at less cost.

- **National Institutes of Health (NIH).** The budget provides a $1.15 billion increase for NIH, the largest ever, to a proposed $14.8 billion agency funding level that will support greater research on diabetes, brain disorders, drug demand reduction, genetic medicine, disease prevention strategies, and the development of an AIDS vaccine. Within this level, the budget provides a 10 percent increase in cancer research at NIH, highlighting renewed efforts to prevent, detect, and, ultimately, cure cancer. From 1999 to 2003, the NIH budget will grow by nearly 50 percent and cancer research at NIH will grow by 65 percent.

- **National Aeronautics and Space Administration (NASA).** The budget provides $13.5 billion for NASA in 1999 -- a one-percent decrease from 1998 -- and supports various ongoing activities, including: $2.1 billion for Space Science -- a three percent increase over 1998, leading to more robotic exploration of the solar system; $1.4 billion for Earth Science (formerly Mission to Planet Earth), which explores the influence of natural processes and human activities on the environment; $389 million for Advanced Space Transportation Technology, including funds for the X-33 and

X-34 reusable launch vehicle technology demonstrations; $786 million for NASA's Aeronautics Research and Technology programs, including Aviation Safety R&D; and $760 million in future-year funds to support launch vehicles that would lower NASA's launch costs. The budget also includes $2.3 billion for the International Space Station.

- **Department of Energy (DoE).** The budget provides $7.2 billion in R&D funding for DoE -- an eleven percent increase over 1998. The budget includes resources for science research and nuclear fusion programs, for constructing the National Spallation Neutron Source, for the international partnership on the Large Hadron Collider, and for DoE research under the Climate Change Technology Initiative.

- **National Science Foundation.** The budget provides $3.7 billion, 10 percent more than in 1998, for NSF, whose broad mission is to promote science and engineering research and education across all fields and disciplines. The $344 million increase is NSF's largest ever.

- **Department of Agriculture (USDA).** The budget provides $1.4 billion for R&D at USDA and includes support for the Agricultural Research Service, the Economic Research Service, and Cooperative State Research, and Forest Service programs. The budget also requests $130 million (+25 percent) for USDA's high-priority National Research Initiative, and proposes a new Food Genome Initiative expanding efforts to understand the genomes of important plants, animals and microbes.

- **Department of the Interior (DOI).** The budget provides $807 million for Interior's U.S. Geological Survey -- a 6 percent increase over 1998 -- for natural resource and environmental sciences in clean water, natural hazards reductions, and wildlife biology and habitat.

- **Department of Commerce (DoC).** The budget provides $1.1 billion for R&D at DoC -- essentially equal to the 1998 level -- and includes funding for the National Institute of Standards and Technology (NIST) Advanced Technology Program, construction of an Advanced Measurement Laboratory on the NIST campus in Gaithersburg, Maryland, and Oceanic and Atmospheric Research activities.

- **Department of Veterans Affairs (VA).** The budget provides $0.3 billion to VA's research program to conduct basic clinical, epidemiological, and behavioral studies across the entire spectrum of scientific disciplines. Research will focus on aging, chronic diseases, mental illness, substance abuse, sensory loss, trauma, health systems, special populations (including Persian Gulf veterans), and military occupation and environmental exposures.

MULTI-AGENCY INITIATIVE HIGHLIGHTS

- **Climate Change Technology Initiative.** The budget includes a five-year R&D program to reduce the Nation's emissions of greenhouse gases. Led by the Department of Energy and the Environmental Protection Agency, the effort also includes activities of the National Institute of Standards and Technology and the Departments of Agriculture and Housing and Urban Development. The budget proposes a combined $2.7 billion increase over five years for these agencies for R&D on energy efficiency, renewable energy, and carbon-reduction technologies. The budget also proposes $3.6 billion in tax incentives over five years to stimulate the adoption of more efficient technologies in buildings, industrial processes, vehicles, and power generation.

- **US Global Change Research Program.** The budget provides $1.9 billion -- essentially equal to the 1998 level -- to increase understanding of climate change and variability, atmospheric chemistry, and ecosystems.

- **Large Scale Networking and High End Computing.** The budget provides $850 million for this R&D effort, originally called High Performance Computing and Communications, which the Administration has restructured to focus on clearer goals, milestones, and performance measures. As part of this effort, the budget includes $110 million for the Next Generation Internet Initiative.

- **Partnership for a New Generation of Vehicles (PNGV).** The budget provides $277 million -- a 22-percent increase over 1998 -- for this cost-shared, industry partnership. Federal funding focuses mainly on development of production prototype vehicles three times more fuel efficient than today's cars, with no sacrifice in comfort, performance, or price.

OTHER HIGHLIGHTS

- **US/Mexico Foundation.** The budget provides $5 million to enhance U.S. and Mexican science and technology strengths by supporting research, training, and human resource development directed at problems common to both countries.

- **Global Learning and Observations to Benefit the Environment (GLOBE).** The budget provides $14 million for GLOBE, an international K-12 education and science partnership linking schools and scientists to make and interpret environmental measurements and share information over the Internet.

- **Education Research Initiative.** The budget provides $50 million per year for five years for a partnership between the Education Department and the National Science Foundation to support research focused on the best approaches to raising student achievement through, for example, learning technologies, and innovative approaches to reading and mathematics instruction that take advantage of the latest research findings in cognitive research, and research on brain development in young children.

HEALTH RESEARCH
IN THE RESEARCH FUND FOR AMERICA

BACKGROUND

Recent progress in biomedical research has ensured that many of the diseases Americans faced a generation ago can now be prevented or treated. Smallpox has been eradicated from the entire world and polio is gone from the Western Hemisphere. There are new therapies for some of the most devastating diseases, such as AIDS. These successes would not have occurred without a strong sustained support of biomedical research. Even more breakthroughs are in sight. For example, new knowledge about both genetics and the structure of tumors may enable scientists to pinpoint more effective treatments for prostate, breast, and ovarian cancer. There are also new opportunities to learn more about preventing diseases. Finally, there are new possibilities to determine how to translate cutting edge discoveries into practical, improved care.

POLICY DESCRIPTION

To build on this progress and new possibilities, the "21st Century Research Fund" contains an unprecedented, multi-year commitment to improve health care research. It contains new funding for investments in biomedical research, prevention research, and research to improve health outcomes. In 1999 alone, this Fund contains:

- **An Historic $1.15 Billion Investment in Biomedical Research.** To build on the progress in biomedical research, the Fund contains a historic up-front investment in biomedical research — a $1.15 billion increase in FY 1999 — and proposes an increase in NIH funding of nearly 50 percent over the next five years. Under the President's proposal, the NIH will devote over $20 billion to biomedical research in 2003. This increases funding at all of the Institutes at NIH, including a 65 percent increase in cancer research funding.

  - **$25 Million Increase in New Prevention Research.** The Fund also includes a new Prevention Research Program at CDC to identify interventions that prevent diseases.

  - **$25 Million Increase In Quality and Health Outcomes Research.** Research at the Agency of Health Care Policy and Research (AHCPR) bridges the gap between what scientists know and the health care Americans receive. In FY1999, total funding for AHCPR would increase by $25 million to a total of $171 million. Funding for health care quality improvement, which will address the scientific research recommendations of the President's Quality Commission, would double from $15 million to $30 million.

  - **$300 Million Increase In Veteran's Research.** The Budget provides $300 million to VA's research program to conduct basic clinical, epidemiological, and behavioral studies across the entire spectrum of scientific disciplines. FY 1999 research will focus on aging, chronic diseases, mental illness, substance abuse, sensory loss, trauma, health systems, special populations (including Persian Gulf veterans), and military occupation and environmental exposures.

RESTORING BENEFITS TO VULNERABLE GROUPS OF LEGAL IMMIGRANTS

The President believes that legal immigrants should have the same opportunity, and bear the same responsibility, as other members of society. Upon signing the 1996 welfare law, he pledged to work toward reversing the harsh, unnecessary cuts in benefits to legal immigrants that had nothing to do with moving people from welfare to work. As part of last year's Balanced Budget Act (BBA), the President worked with Congress to restore Medicaid and Supplemental Security Income (SSI) to hundreds of thousands of disabled and elderly legal immigrants. In the 1999 budget the President proposes to restore Food Stamp benefits to vulnerable groups of legal immigrants and to provide States the option to provide health assistance to immigrant children.

FOOD STAMP BENEFITS

The 1999 budget proposes to restore Food Stamp benefits for vulnerable groups of legal immigrants. The President's proposals would provide Food Stamp benefits to an additional 730,000 legal immigrants in 1999 at a cost of $2.5 billion over 5 years. Specifically, benefits would be restored for:

- Families with children. This provision restores eligibility to families with children without regard to the immigrant's date of entry into the U.S. It will assist hundreds of thousands of families with citizen children and legal immigrant parents who are now depending upon only a partial Food Stamp benefit for the citizen children. Restoration of benefits to families with children will ensure that children receive the nutrition they need to become healthy, productive members of our society.

- Immigrants with disabilities and elderly immigrants age 65 and older. This provision parallels the action taken in the BBA for SSI and Medicaid. Consequently it applies to those who entered before welfare reform was enacted. Immigrants who have already come to the U.S. should not be penalized when they have played by the rules.

- Refugees and asylees. The current law exemption for refugees, asylees, and those whose deportation has been withheld would be extended from 5 to 7 years. The Nation admits refugees and asylees for humanitarian reasons and many need more time to naturalize than the current exemption provides. This provision parallels the action taken in the BBA for SSI and Medicaid.

- Hmong immigrants from Laos who came to the U.S. after the Vietnam war. This provision recognizes the unique history and special needs of this group.

- Certain Native Americans living along the Canadian and Mexican borders. This provision also parallels a similar provision for SSI and Medicaid in the BBA that corrects an oversight in the welfare reform law.

The Administration's proposal would first require immigrants to seek assistance from those who sponsored the immigrant into the country. Recent immigrants whose sponsors signed the new legally binding affidavits of support would be ineligible for Food Stamps unless the sponsor became destitute. When support is unavailable from an immigrant's sponsor, the Nation should provide a safety net for vulnerable groups of immigrants who are legal, permanent residents of our country.

HEALTH COVERAGE

The 1999 budget also proposes to provide States the option to provide health care coverage through Medicaid and the Children's Health Insurance Program (CHIP) for legal immigrant children. This provision gives States the option to provide health coverage through Medicaid and CHIP to legal immigrant children regardless of when they entered the country. States currently have the option to cover legal immigrant children who entered the country before the 1996 Welfare law was enacted. The 1999 budget extends this option to allow states to cover immigrant children who entered the country after the 1996 welfare law was enacted.

For this purpose, the budget provides an additional $230 million over five years in Medicaid. State spending would be matched at Medicaid matching rates. The budget would also allow states to cover immigrant children through their current CHIP allotment. To give States flexibility, States can chose to cover immigrant children through either Medicaid or CHIP, or through both programs.

This policy provides access to needed medical care for low-income, legal immigrant children who become seriously ill or who have an accident. This policy would also provide access to preventative health care services for a very vulnerable population. The President's proposal does not undermine the central goal of welfare reform -- which is to move adults from welfare to work -- but, would instead allow immigrant children to get the best possible start in life.

HIV/AIDS

The 1999 budget continues the Administration's strong record of support for HIV/AIDS throughout the government:

HHS DISCRETIONARY AIDS FUNDING UP 8 PERCENT

The budget provides $3.8 billion for discretionary HIV/AIDS activities at the Department of Health and Human Services, an increase of 8 percent over 1998 and an 83 percent increase over FY 1993. Total funding for HHS HIV/AIDS activities, which includes both mandatory -- Medicaid, Medicare and Social Security -- and discretionary activities -- NIH and Ryan White -- is $9.7 billion, an 8 percent increase over 1998 and an 85 percent increase over the 1993 level of $5.2 billion.

RYAN WHITE AIDS TREATMENT GRANTS UP 14 PERCENT

The budget includes $1.315 billion for Ryan White AIDS Treatment Grants, a $165 million (14 percent) increase over 1998 and a 241 percent increase over the 1993 level. Included in this amount is a $386 million set-aside for grants to State AIDS Drug Assistance Programs (a 35 percent increase over the 1998 level of $286 million, and a 642 percent increase since the set-aside began in 1996, which will help ensure that low-income people with HIV/AIDS have access to powerful combination therapy drugs.

HUD HOUSING OPPORTUNITIES FOR PEOPLE WITH AIDS (HOPWA) UP 10 PERCENT

The budget includes $225 million for HOPWA, a $21 million (10 percent) increase over the 1998 level of $204 million and $125 million (125 percent) over the 1993 level of $100 million.

NIH AIDS RESEARCH UP 7.7 PERCENT

The budget includes $1.731 billion for AIDS research activities at the NIH, a 7.7 percent increase over 1998 and a 62 percent increase over 1993. In May 1997, the President challenged the scientific community to develop an AIDS vaccine within the next ten years. As a leader in biomedical research, NIH will spearhead the scientific community's efforts to meet the President's challenge.

CDC HIV AND STD PREVENTION ACTIVITIES INCREASED BY $15 MILLION

The budget includes $15 million in new resources at CDC for HIV prevention (+$5 million) and other sexually transmitted disease activities (+$10 million), as part of the President's initiative to address racial health disparities. The budget has increased resources for CDC HIV Prevention activities by 28 percent since 1993.

Clinton to Seek Boost in Funds For Education

By CHRISTOPHER GEORGES
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—President Clinton will propose a major education initiative to recruit and train tens of thousands of teachers across the nation in an effort to reduce class sizes.

The program, which would cost $7.3 billion over five years, is part of Mr. Clinton's overall plan to boost federal education funding by more than $15 billion over the next five years. The president's sweeping education plan, which also includes $5 billion in new funds for school construction, is outlined in White House budget documents. The plan will be formally unveiled in February with the rest of the administration's fiscal 1999 budget.

Mr. Clinton's plan, which also includes large increases in spending for children in poor and urban areas, sets the stage for a number of election-year conflicts with Republicans over education issues, in particular national testing and federal funding increases for school construction and charter schools.

Still, congressional GOP education leaders said they would likely support a number of items in the nearly 20-point Clinton education plan. A senior GOP congressional aide praised some of the president's proposals, but said a key concern would be whether the programs could be paid for while keeping the budget in balance.

Administration officials declined to detail exactly how the new spending would be offset, except to say that the president's budget wouldn't violate the balanced-budget agreement or rely on projections of future budget surpluses. Instead, the new spending, in education as well as in other areas of the president's budget, is expected to be paid for by proposed revenue raisers such as user fees and billions of dollars in new funds from an anticipated tobacco settlement.

Mr. Clinton's plan continues his longstanding tendency to push education and training programs to the top of his domestic agenda. But the funding boosts also take on added political significance this year. House Democrats have argued strongly in meetings with administration officials for such programs in hopes of enhancing their chances to unseat Republicans in the coming election.

Polls show that spending increases for school construction and hiring more teachers — which mean smaller class sizes — are strongly supported by voters. Campaigning Democrats aim to use their support for such initiatives to put Republicans on the defensive.

Mr. Clinton's plan also requests nearly

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Continued From Page A3

$200 million in new funds to aid Hispanics, a growing voting bloc for whose support Democrats and Republicans are vying. The budget plan, for example, highlights spending boosts for bilingual education, education aid for migrant children and colleges that serve Hispanic students.

While Republicans are likely to support some of these and other proposals in the overall education plan, they traditionally have argued that school-funding issues are best left to states and localities.

Charter Schools

Still, Mr. Clinton's plan takes steps to head off the growing dispute between the parties over school vouchers by proposing to fund start-up costs for more than 1,300 charter schools—schools that are set up by local communities and are free from most school-board regulations. Currently, there are more than 700 charter schools in the U.S. Republicans, while generally not opposed to charter schools, have typically pushed instead for school-voucher programs that help parents pay for private school.

Among the most costly proposals is the $7.3 billion teacher recruitment and training program. The aim is to help reduce class sizes, especially in poor and inner-city areas, to 15 to 18 students. Along those lines, Mr. Clinton seeks to spend $1.5 billion over five years to create "educational opportunity zones." Fifty poor, low-achieving districts would receive funds to institute reforms to help boost grades and test scores and finance programs allowing parents to choose which public schools their children attend.

One innovative proposal, labeled "College-School Partnerships," would allocate $2.5 billion over five years to match college students and educators with more than 1.6 million high-school and grade-school children. The mentoring program, aimed at 3,300 high-poverty-area schools, would inform the younger students about the advantages of a college education and ways to get financial aid.

More Spending for Computers

The plan also proposes more spending to introduce computers into classrooms and train teachers in new technology. It also seeks more funds for the "Safe and Drug-Free Schools" program and for students with disabilities. Mr. Clinton also proposes to raise the maximum Pell Grant award to $3,100 from $3,000.

Meanwhile, Vice President Al Gore announced a plan yesterday to train more workers for high-tech jobs. The Departments of Labor and Education will disburse as much as $6 million in grants for industry groups that expand their school-to-work programs. In addition, the Labor Department will spend $3 million more on projects designed to train dislocated workers for technology jobs.

The administration move comes amid the release of a study estimating that 346,000 computer-programmer and systems-analyst jobs are vacant at U.S. companies with more than 100 employees. "It is critical that American workers are prepared to take advantage of these new high-skill, high-wage jobs," Mr. Gore said in a statement.

Separately, White House spokesman Mike McCurry said President Clinton may ask Congress to approve another increase in the minimum wage. "It's being looked at," Mr. McCurry told reporters yesterday. "I don't think there's been any decision at all one way or the other."

Two years ago, President Clinton and Congress agreed to a minimum-wage increase of 90 cents to $5.15 an hour, which fully took effect last September. Later this month, Sen. Edward Kennedy (D., Mass.) is expected to introduce legislation to boost the minimum wage by an additional $1.50 in the next three years.

Improving Education

President Clinton's major education proposals for 1999

- ***$7.3 billion over five years*** to recruit and train elementary and secondary school teachers
- ***$5 billion over five years*** for school construction
- ***$2.5 billion over five years*** to help colleges promote the importance of education to primary and secondary students to stay in school
- ***$1.5 billion over five years*** to assist schools in poor areas
- ***$200 million in 1999*** for programs to assist Hispanic students
- ***$20 million in 1999*** to help set up more than 1,300 charter schools

Census Director Resigns After Three-Year Tenure

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON — Census Director Martha Farnsworth Riche, who has battled Republican lawmakers over how to count the population in the 2000 census, is resigning, effective Jan. 30.

During Ms. Riche's three-year tenure, she has had to wage battles in Congress for a relatively apolitical agency. The biggest one: trying to convince Republican members that a practice called statistical sampling would be a better way to count people than trying to count every head. Republicans fear that sampling, a way to calculate the number of people who can't be found based on the people who can, would result in more people counted in largely Democratic urban areas.

The two sides reached a compromise last fall, allowing sampling to be used in test censuses, but leaving a final decision on the national head count until later. Now, Ms. Riche said, is the right time for her to leave and let the Clinton administration pick a new person to handle the day-to-day business of preparing and running the 2000 count.

Ms. Riche, a former private-sector demographer, said she is considering writing a book on the history of the census, including all the debates over ways to count people.

Deputy Census Director Brad Huther will run the bureau until Ms. Riche's successor is named.

THE WALL STREET JOURNAL
TUESDAY, JANUARY 13, 1998

POLITICS & POLICY

Asian Woes Cause Headaches for U.S. Foreign Policy

By ROBERT S. GREENBERGER
And THOMAS E. RICKS
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – The tremors rattling Asia's financial markets already are shaking up American foreign policy.

Take South Korea. In 1994, the U.S. brokered a deal under which a thriving South Korea would pay most of the $5 billion tab to build modern nuclear-power plants in North Korea. The deal was central to a plan designed to halt North Korea's nuclear-weapons program and promote peace on the peninsula. But now, mounting unemployment and business failures raise concerns about Seoul's ability to follow through.

And that's not all. Policy makers worry that tensions created by the wave of currency devaluations could erode security cooperation that the U.S. has so carefully nurtured around Asia. Economic problems already are forcing cutbacks in military spending, and in a speech last week, former Secretary of State Henry Kissinger warned that the U.S.-backed austerity being imposed by international financial institutions could trigger a wave of anti-Americanism.

The administration also worries about actions that Congress may take to undercut the administration. Lawmakers return from a lengthy recess on Jan. 26.

Recognizing the diplomatic dimension of the financial crisis, the State Department added Stanley Roth, its senior Asia hand, to Deputy Treasury Secretary Larry Summers' emergency mission to the Far East this week. Later, he will join Defense Secretary William Cohen for the remainder of his 12-day Asian tour, which also began this past weekend.

Although foreign-policy officials – including Secretary of State Madeleine Albright – remain deeply involved in all administration strategy sessions, there is some frustration among them. That's because foreign-policy specialists say they're caught in a bind. As diplomats, they would like policies that would let them maintain cordial relations with Asian leaders. But they know that soft approaches that don't produce economic results wouldn't serve any useful purpose now.

'Always in a Catch-Up Mode'

In short, today's interconnected economic problems are making it more difficult to conduct normal foreign policy. "One thing that we do know is that financial markets move with dazzling speed, and governments inevitably move slower – so we're always in a catch-up mode," says Michael Armacost, president of the Brookings Institution and a former undersecretary of state and ambassador to Japan.

Right now, much energy is focused on the mounting problems in Indonesia, a nation that for decades has been a key to stability in Southeast Asia. But the financial crunch is putting Jakarta's own stability at risk; many Indonesians who didn't fare well during recent decades of relative prosperity could well decide to blame others for what they perceive as economic unfairness. The leading candidates come from the highly successful and visible Chinese minority. Anti-Chinese riots, which have occurred before, would raise tensions across the region and perhaps prompt an angry reaction from Beijing itself.

"It could get pretty violent," warns Robert Manning, a former State Department official now at the Council on Foreign Relations. "It could lead to a lot of anti-American resentment" if the U.S. is considered the enforcer of austerity.

The 13,000-island nation of Indonesia is important to the U.S. With 202 million people, it's the world's fourth-most-populous nation and the dominant country in Southeast Asia, a counterweight to China's influence. As an oil exporter, it helps set world petroleum prices and has become an important global trader. The Clinton administration counts Indonesia among the 10 leading developing nations that it expects will offer the U.S. important economic opportunities in coming years.

For the U.S., there are also military implications to Asia's financial debacle. Thailand recently said it wants to delay buying eight Boeing Co. F-18 fighter jets. And last Friday, Indonesia said it will delay purchasing 12 Russian Sukhoi Su-30 fighters, part of a $500 million acquisition announced last August. Such cutbacks could dampen an unwanted Asian arms race, but they are worrisome to the U.S. because a lack of modern equipment – especially communications gear – degrades the ability of Asians to train and operate alongside the U.S. military. Such joint exercises help create closer political ties to Asian leaders.

Uncertainty About Congress

During his current 12-day trip across Asia, Mr. Cohen will discuss revising arms-acquisition plans in several nations. But his trip also has a broader purpose in these days of great worry. "It is to convey and reinforce to the peoples of the region that the United States is a friend and a solid ally in good times and in bad," he said over the weekend in Malaysia.

At the same time, the administration needs its own friends and allies on Capitol Hill, where there are competing views about how to handle the Asian crisis. An odd coalition of conservatives and liberals are calling for a close look at the International Monetary Fund's bailout plans for East Asia, including the U.S. role. Sen. Alfonse D'Amato, the New York Republican who heads the Senate Banking Committee, said his panel would investigate the issue when Congress reconvenes. A key test looms in March when Congress will consider a supplemental spending bill that is expected to include about $18 billion for the IMF.

Congressional actions also could produce some mixed outcomes troubling to both Indonesia and the U.S. For example, asks Mr. Manning of the Council on Foreign Relations, what if the Indonesian government does exactly what the IMF tells it to do – but uses troops to enforce a harsh law and order? That could undercut congressional support for financial aid to that Asian nation, already widely criticized here for human-rights abuses.

Further, the Asian financial crisis could bring new congressional criticism of Japan. U.S.-Japan relations have been relatively tranquil in the past year, as the trade surplus with the U.S. narrowed and lawmakers focused more attention on China as the region's primary villain. But Japanese efforts to export their way out of a protracted economic slowdown, plus continued resistance to opening their markets, "could reawaken frustration in the Congress," says Mr. Armacost, the former ambassador to Tokyo.

Some U.S. lawmakers also are less than enthusiastic about the U.S.-brokered nuclear deal on the Korean peninsula. The White House had agreed to pay an estimated $50 million yearly to supply North Korea with heavy heating oil until the new reactors are on line. The cost has proved to be nearer $65 million, and congressmen don't want to vote the difference.

That's a bad signal to send South Korea, especially when it could face rising domestic opposition to spending large sums in the north. Departing President President Kim Young Sam gave President Clinton a written assurance that he would support the project, and President-elect Kim Dae Jung has generally agreed to honor that pledge. But as austerity straps Seoul's economy, "the South Korean people will be less inclined to extend money to North Korea," predicts James Lilley, a former U.S. ambassador to Seoul.

If Congress balks at multibillions for the IMF and the relatively small multimillions for fuel oil, the consequences could be striking. Ever since the Vietnam era, notes retired U.S. Navy Adm. Richard Macke, Asian nations have been wary of any U.S. move or signal that could be interpreted as disengagement. "No matter how often you tell them, the question always remains: Are we still there for the long term to help with the security and stability of Asia?" he says.

The Ides of March

Some key events that will affect Asian stability for better or worse:

■ **INDONESIA**

March 1 to 11: 500-member parliament, bolstered by 500 presidential appointees, selects new president; whether Suharto will seek a seventh five-year term remains unclear.

March 15: IMF must decide whether to release a second $3 billion aid installment.

■ **WASHINGTON**

Expected in March: U.S. Congress to vote on fiscal 1998 supplemental budget, including a controversial request for about $18 billion for the IMF.

■ **SOUTH KOREA**

Expected in March: Revision of labor law governing worker layoffs; reports by Korean industrial conglomerates should reveal their true foreign debts.

THE WALL STREET JOURNAL
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Tax Side of the Budget, December 16, 1997

The attached spreadsheets provide a framework for a discussion of the overall tax package for the FY 1999 Budget.

- o The first spreadsheet (in a very small font) presents a speculative mock-up of the tax side of the budget.

  - The tax initiatives total **$23.2 billion** through 2003 and **$50.2 billion** through 2008. These include provisions for child care, carbon-saving technology, pensions, education and extensions of expiring provisions. We include a placeholder for a modest taxpayer bill of rights and simplification package.

  - The current payfor list totals **$18.6 billion** through 2003 and **$39.3 billion** through 2008. This leaves a gap of $4.6 billion through 2003 and $10.9 billion through 2008, despite the fact that we include $7 billion of new raisers (through 2003) that are under development.

    -- The shortfall occurs, in part, because we do not include three old raisers: the reduction in the dividend-received deduction to 50 percent, the restriction on the conversion of large corporations into S corporations, and the sales source rule. Together these raise $8.3 billion through 2003 and $18.6 billion through 2008. There is little prospect of these proposals being accepted and there are political costs to reintroducing them.

- o The second spreadsheet lists all tax initiatives that have been discussed with OTP. It provides a menu of alternative options that can be substituted for the options given in the suggested package.

- o The third spreadsheet provides a menu of revenue-raising options, not including the new raisers that are under development.

Issues for consideration

- o Child Care: If payfors are tight, the proposed increase in the child and dependent care credit could be scaled back.

  - The $2.7 billion option takes the CDCTC income breakpoints that have not been indexed since 1982 and alters them to where they would have been had they been indexed. This alternative benefits families with incomes up to $47,000, rather than $59,000 as is done in the $5.2 billion option listed in the "speculative package."

  - We are engaged in an intensive policy process to develop an employer-based child care subsidy along the lines suggested by Senator Kohl.

- o <u>Carbon-saving technology</u>: A central issue is the fraction of the President's $5 billion initiative that is going to be run through the tax code.
  - We are engaged in a time-consuming, intensive interagency process that is developing the most desirable options for this initiative.

- o <u>Pension package</u>: OTP is working hard to develop a pension package that extends coverage to workers not covered under existing pension plans. The core of the package will be an account where the employer can make payroll contributions, with few regulatory burdens, coupled with a tax credit that subsidizes the startup costs of the plan. Credits will also subsidize employer-sponsored education. We are expecting the package to cost roughly $1 billion through 2003.

- o <u>Education package</u>: We include an initiative to make Section 127 cover graduate students and permanent. Another decision needs to be made about whether we want to offer our own state pre-paid tuition proposal as a way to counter the inevitable, worse proposal that we will see from Congress. OTP is trying to develop an acceptable option.

- o <u>Low-income housing tax credit</u>: Policy calls need to be made on whether and by how much to raise the LIHTC per capita cap.

- o <u>Extensions of expiring provisions</u>: These are straightforward, though ideally, each would be extended longer, say through September 30 of each year, to avoid being shut down if budget deliberations drag on into the Summer. A provision to make the brownfields tax credit permanent is also included in the speculative package.

- o <u>Miscellaneous provision</u>: The Administration promised support for Congressman Jefferson's proposal to subsidize small-business minority-owned investment corporations (SSBICs).

- o <u>TBOR and simplification</u>: A placeholder is included for a TBOR and modest simplification package in the budget. Specific proposals are under development.

- o <u>Raisers</u>: Consideration needs to be giving to the consequences of offering old, but politically unpopular raisers (like the sales source rule raiser from the FY 1998 Budget).
  - New proposals are being developed and will then be vetted.

- o <u>Dedicated tax sources</u>: There are three major tax or "near-tax" revenue sources: Tobacco tax increases may be used to finance NIH and loosen discretionary caps; a Medicare Part B recapture tax (administered by the IRS) may be used to finance Medicare and health initiatives; and Superfund taxes will be extended to finance environmental cleanup.

Highly Speculative, Discussion Draft of the Tax Side of the FY99 Budget

16-Dec-97	1998-2003	1998-2008
Tax Initiatives		
Provision:		
Child Care		
Increase CDCTC to 50% (up to $30k), phased down to 20% (exceeding $59k)	-5208	-12123
Treasury-designed, Employer child-care subsidies (with Kohl buy-in), Plug number	-1500	-3000
Carbon-Saving Technology		
Energy-efficient building equipment (10 to 20 percent credit)		
Tax credit for purchase of fuel-efficient vehicles		
Extend the current 1.5 cent per KWh credit from production from wind and biomass		
Tax credit for solar rooftop systems		
Allow employees to get transit and vanpool benefits in lieu of compensation		
Total	-2500	-5500
Pensions		
Expand payroll saving opportunities for workers not covered by qualified plans, under development		
Employer credit for initiating payroll saving opportunities for uncovered workers, under development		
Require faster vesting of 401(k) employer matching contributions		
Encourage employers to automatically enroll employees in 401(k) plans		
Expand worker right-to-know about pension benefits		
Require 1% contribution by employers for 401(k)s safe harbor		
Simplify rules and increase PBGC guarantees for collectively bargained plans		
Total	-1000	-2200
Education Initiatives		
Section 127, cover graduate students and make permanent	-2851	-7406
State pre-paid tuition plans -- Treasury proposal, under development, plug number	-1500	-4000
Low-Income Housing Tax Credit		
Increase LIHTC per capital cap from $1.25 to $1.50	-749	-3234
One-Year Extension of Expiring Provisions		
Work Opportunity Tax Credit (to 6/30/99)	-427	-430
Welfare-to-Work tax credit (4/31/00)	-168	-180
R&E tax credit (6/30/99)	-2211	-2220
Contributions of stock to private foundations (6/30/99)	-118	-118
Generalized system of preferences (6/30/99)	-400	-400
Make permanent the expensing of brownfields remediation costs	-534	-1338
Miscellaneous Provisions		
Modified Jefferson SSBIC proposal	-30	-60
Taxpayer Bill of Rights and Simplification Package		
TBOR and simplification proposal, under development		
Includes revenue neutral international simplification and loophole closers	-4000	-8000
Total	-23196	-50209
Payfors		
Provision (Most viable previously-introduced provisions):		
Financial Products		
Defer interest deduction on certain convertible debt	166	549
Deny DRD for certain preferred stock	157	611
Disallowance of interest on debt allocable to tax-exempt obligations	247	1083
Average cost basis for securities	1862	3969
Corporate		
Repeal percentage depletion for nonfuel minerals on certain Federal lands	478	1003
Foreign		
Captive insurance companies	81	106
Modify foreign tax credit carryover rules	1154	1840
Foreign oil and gas income	388	1039
Accounting		
Repeal lower-cost-or-market inventory method	1583	1851
Repeal components-of-cost inventory method	976	2209
Administrative		
Increased information reporting penalties	81	193
Substantial understatement penalty for corporations	173	254
Withholding on certain gambling winnings	25	30
Deposit requirement for FUTA	1358	1511
Excise Taxes		
Reinstate Oil Spill Liability Trust Fund taxes	1224	1424
Other		
Section 1031 like-kind exchange modifications	1653	3581
New Raisers (Under development but not vetted and fully worked out)		
Set of accounting, corporate, estate and gift, excise tax, partnership, insurance and miscellaneous raisers (preliminary, rough total)	7000	18000
Total	**18606**	**39253**
Other Dedicated Tax Initiatives		
Dedicated Reinstatement of Superfund taxes 1/	7732	16106
Dedicated Tobacco Tax Increase	5000	
Dedicated Medicare Part B Premium Recapture, under development		

Menu of Policy Options: Preliminary Estimates

16-Dec-97	1998-2003	1998-2008
Menu of Tax Initiatives Discussed as Potential Part of the Budget		
Provision:		
Child Care		
Increase CDCTC to 50% (up to $30k), phased down to 20% (exceeding $59k)	-5208	-12123
"Index" CDCTC from 1982, 50% (up to $18k), phased down to 20% (exceeding $47k)	-2749	-6774
Two year, 50% business credit for child care services (Kohl proposal), JCT	-2600	
Treasury-designed, Kohl substitute (with Kohl buy-in), Plug number	-1500	
Early Childhood credit to help parents stay at home ($250/child 0 to 3), rough	-6500	-12700
Early Childhood credit to help parents stay at home ($500/child 0 to 1), rough	-4300	-8500
Carbon-Saving Technology		
Energy-efficient building equipment (10 to 20 percent credit)		
Tax credit for purchase of fuel-efficient vehicles		
Extend the current 1.5 cent per KWh credit from production from wind and biomass	-300	-900
Tax credit for solar rooftop systems		
Allow employees to get transit and vanpool benefits in lieu of compensation	-100	-200
Tax credits for investment in small capacity industrial cogeneration systems		
Reduce depreciation recovery period for combined heat and power systems		
A $1.10 per million Btu credit for methane-based electricity or power		
Tax credits for the purchase of highly energy efficient housing		
Pensions		
Expand payroll saving opportunities for workers not covered by qualified plans, under development		
Employer credit for initiating payroll saving opportunities for uncovered workers, under development		
Require faster vesting of 401(k) employer matching contributions	small	small
Encourage employers to automatically enroll employees in 401(k) plans	0	0
Expand worker right-to-know about pension benefits	small	small
The "SAFE" DC/DC plan for small businesses	-845	-2074
(Previous administration initiatives)		
Require more pension plan assets to be subject to audit		
Require 1% contribution by employers for 401(k)s safe harbor		-200
Simplify rules and increase PBGC guarantees for collectively bargained plans		-100
Provide better spousal protection in Civil Service Retirement and RR systems		
Education Initiatives		
School construction, with an expansion of Rangel bonds, dialed up or down		
Section 127, cover graduate students with no extension	-439	-439
Section 127, cover graduate students and make permanent	-2851	-7406
State pre-paid tuition plans -- Treasury proposal, under development		
Low-Income Housing Tax Credit		
Increase LIHTC per capital cap from $1.25 to $1.37	-359	
Increase LIHTC per capital cap from $1.25 to $1.37 to $1.50	-602	-2913
Increase LIHTC per capital cap from $1.25 to $1.50	-749	-3234
Increase LIHTC per capital cap from $1.25 to $1.75 and index thereafter	-1634	
One-Year Extension of Expiring Provisions		
Work Opportunity Tax Credit (to 6/30/99)	-427	-430
Welfare-to-Work tax credit (4/31/00)	-168	-180
R&E tax credit (6/30/99)	-2211	-2220
Contributions of stock to private foundations (6/30/99)	-118	-118
Generalized system of preferences (6/30/99)	-400	-400
Make permanent the expensing of brownfields remediation costs	-534	-1338
Miscellaneous Provisions		
Modified Jefferson SSBIC proposal	-30	
Proposal (second-earner deduction) to ameliorate marriage penalties, under development but expensive		
Taxpayer Bill of Rights and Simplification Package		
TBOR and simplification proposal, under development		

Menu of Revenue-Raising Options: PRELIMINARY Revenue Estimates

	16-Dec-97	1998-2003	1998-2008
Unused Administration FY 1998 Budget Revenue Raisers			
Provision:			
Financial Products			
Defer interest deduction on certain convertible debt		166	549
Reduce dividends-received deduction to 50%		1774	3729
Deny DRD for certain preferred stock		157	611
Disallowance of interest on debt allocable to tax-exempt obligations		247	1083
Average cost basis for securities		1862	3969
Corporate			
Repeal percentage depletion for nonfuel minerals on certain Federal lands		478	1003
Sunset extension of section 29 credit for nonconventional fuels		0	0
Conversion of large corporations into S corporations		143	597
Foreign			
Captive insurance companies		81	106
Modify foreign tax credit carryover rules		1154	1840
Foreign oil and gas income		388	1039
Sales source rule		6380	14250
Accounting			
Repeal lower-cost-or-market inventory method		1583	1851
Repeal components-of-cost inventory method		976	2209
Administrative			
Increased information reporting penalties		81	193
Substantial understatement penalty for corporations		173	254
Withholding on certain gambling winnings		25	30
Deposit requirement for FUTA		1358	1511
Excise Taxes			
Reinstate Oil Spill Liability Trust Fund taxes		1224	1424
Reinstate Superfund taxes 1/		7732	16106
Other			
Section 1031 like-kind exchange modifications		1653	3581
Total		27469	55386
Potential Environmentally Friendly Raisers /2			
Repeal expensing of intangible drilling costs for oil and gas		1705	2160
Repeal expensing of exploration and development costs for coal mines		100	155
Repeal percentage depletion for oil and gas		7125	14585
Repeal percentage depletion for coal		885	1955
Eliminate the enhanced oil recovery credit		435	985
Repeal exception for passive loss limit for working interests in oil and gas properties		300 (r)	
Repeal capital gains treatment of royalties on coal		100 (r)	
Repeal exemptions from motor fuel excise taxes for gas used on farms, school buses and certain nonhighway uses		4030 (r)	
Increase the motor fuels excise tax by 1 cent		5000 (r)	
Extend the gas guzzler tax to pickups, vans and sport utility vehicles		1750 (r)	
Tobacco Taxes			
Cigarette excise taxes increases, funds used for dedicated purposes		5000	
Medicare Part B Premium Recapture			
High-income Medicare Part B premium recapture, administered through the IRS. Funds are clearly dedicated to Medicare		12000 to 21000 (r)	
Other Raisers, Under Development			

1/ Includes reinstatement of corporate environmental income tax.

2/ Ideal policies would probably target coal subsidies, and impose the gas guzzler tax on sport utility vehicles. These changes will be politically difficult since the energy subsidies have powerful, strong defenders, and SUVs are popular. Alternative approaches include "shared sacrifice" where all provisions get a percentage haircut.

Student Loan Interest Rate and Fees
Options

Background on interest rates: The formula for setting the maximum interest rate on all Federal direct and guaranteed loans is scheduled to change on July 1, 1998. The new rate is lower for students, but lenders oppose it both because it is lower, and because it is based on an instrument that does not match their method of financing. There is no longer any reason to change the *instrument*, but the Administration is on record as wanting to maintain a reduced rate for students.

Background on fees: In 1993, the Administration reduced fees from a maximum of 8% to 4%. In the guarantee program, the 4% is composed of a 3% Federal fee and a 1% charged by intermediaries (guaranty agencies). Some of these agencies have attempted to undermine direct lending by *not* charging the 1%, making direct loans more expensive. The FY 1998 Budget proposed eliminating that premium so that fees would be 3% in both direct and guaranteed loans. It further reduced fees on need-based (Stafford) loans to 2% (overall, cutting fees in half for needy students).

OMB is currently assuming $4 billion in savings, from which the costs below would be subtracted. These estimates are rough.

Policy Option	**Interest rate policy**	**Fee policy**	**Cost (5-year)**
A. OMB passback (adjusted)	No change [projected 106 basis point rate reduction for students (46 during in-school period), but rate (and instrument) *not viable for lenders.*]	Reduce fees from 4% to 3% (addresses problem where some agencies are undercutting direct lending).	$1.7 billion
B. Same fee policy as FY 1998	No change	Same as above, but further reduce fees on need-based loans to 2%.	$3.3 billion
C. Phase out fees for needy students	No change	Same as (A), ***plus phase out fees entirely*** on need-based (Stafford) loans in out-years.	$2.1 billion
D. Fix interest rate problem and phase-out fees on needy students	Less of a reduction for students (65 basis points), but viable for lenders.	Same as above.	$1.5

MANDATORY/NON MEDICARE
AVAILABLE $30.6 BILLION

ITEM	COST
CHILD CARE -- $9 billion for Child Care Block Grants -- $3 billion for Early Learning	$12.0 billion
FOOD STAMPS	$2.5 billion
CHILD HEALTH	$2.0 billion
CLASS SIZE	$8.0 billion
HIGHER EDUCATION	$1.4 billion
TRADE ADJUSTMENT ASSISTANCE	$0.7 billion
PRE-65	$2.0 billion
WORKERS BETWEEN JOBS	$2.0 billion

TAX SIDE
AVAILABLE $19.9 BILLION

ITEM	COST
CLIMATE CHANGE	$5.0 billion
CHILD CARE	$5.2 billion
KOHL	$1.5 billion
PENSIONS	$1 billion
LOW-INCOME HOUSING	$1.5 billion
SCHOOL CONSTRUCTION	$5.0 billion
AFRICA	$0.2 billion
TRADE AND EXTENDERS	$1-6.5 billion

Elena

MANDATORY HEALTH SPENDING INITIATIVES
MEDICARE

USE	**DESCRIPTION**	**1999-2003***
Pre-65 Coverage	Combination of: Medicare buy-in for Medicare beneficiaries' spouses ages 55-65 COBRA (employer plan buy-in) for "broken promise" retirees 55-65	< $1 b
	Combination of: Medicare buy-in for people ages 62-65 Medicare buy-in for displaced workers ages 55-65 COBRA (employer plan buy-in) for "broken promise" retirees 55-65	$1.5 - 2 b
Long-Term Care	Information on qualified private long-term care policies in the annual Medicare managed care choice information	< $25 m
	Demonstration to test: Medicare catastrophic / private insurance option Managed care for long-term care Tax incentive options	Variable ($0.5 to 4 b)
Clinical Cancer Trial Coverage	Coverage of patient care costs associated with certain cancer clinical trials	$1.7 b
SOURCES		
Anti-Fraud	A series of policies related to Medicare fraud	$2 b
Income-Related Premium	Phase out the current Medicare Part B premium subsidy Begin at: $90,000, $75,000 or $50,000 for singles Raise premium to 75 percent or 100% of total cost	At least $6 b

* Note: All cost estimates are preliminary, not OMB cleared, and subject to change

Budget

MANDATORY HEALTH SPENDING INITIATIVES
COVERAGE INITIATIVES

USE	DESCRIPTION	1999-2003*
Children's Health Outreach	Higher Federal matching payments for Medicaid enrolled children	$0.5 to 1 b
	Move enrollment to schools, child care, and Head Start sites through expansion of the Medicaid "presumptive eligibility" and other options	$500 m
	Access to special TANF fund for outreach for all children	$200 m
Workers Between Jobs	Grants to all states for assistance up to 250% of poverty (last year's policy)	$13 b
	Demonstration / limited program based on: Full funding for fewer states Less funding for all states	Variable ($0.5 to $5 b)
Purchasing Coops	Grants to states to establish voluntary purchasing cooperatives for small employers (last year's policy). It also could be limited to a subset of states.	$50 to 100 m
SOURCES		
Medicaid Admin. Matching Rate	Reduce from 75 to 50 percent (the usual administrative matching rate) certain matching rates for Medicaid administrate costs	Up to $500 m
Medicaid Cost Allocation	Recapture some state funding increases in Medicaid / TANF/ Food Stamps administration by lowering the Medicaid administrative matching rate	Up to $1.2 b

* Note: All cost estimates are preliminary, not OMB cleared, and subject to change

Where are you
on This?

I'm for proposing it
but not spending all of it.

Where is Riley
on this?

50-50

He wants $ to be permanent

+ he'll sell us out in the end
— he'd rather help Spec. Ed

But doesn't mind
lack of targeting to
poor districts?

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

THE DIRECTOR

December 12, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Frank Raines and Jack Lew

SUBJECT: Savings Options to Fund Initiatives in the FY 1999 Budget

This memo reviews our proposals to create room for domestic initiatives in the FY 1999 budget. Since last Monday's budget meeting to discuss these issues had to be rescheduled, we will present here the options in writing as background for subsequent decisions on savings and spending options.

Domestic Discretionary

Earlier this year we described a plan for OMB to propose funding levels to agencies, reserving $5 billion within the FY 1999 domestic discretionary cap for you to allocate to fund either new initiatives or agency appeals. Our passback funding levels, which you reviewed over the Thanksgiving weekend, reserved $5 billion in **budget authority** under the caps. However, this level of budget authority consumed all of the room under the FY 1999 **outlay** cap in the budget agreement. (As you know, budget authority is the total funding level appropriated in a year, while outlays reflect the funds that will actually be spent in that year -- a total of outlays from current appropriations and outlays from prior appropriations.) As a result, we can only use the remaining $5 billion theoretically available under the FY 1999 budget authority cap if we are able to free up outlays to accommodate it. Since only a portion of the outlays for this $5 billion will actually occur in FY 1999, we will need to free up roughly $3 billion in FY 1999 outlays in order to use the budget authority available under the cap.

If there is no room for additional spending, agency funding levels will have to remain at the passback level to stay within the discretionary outlay cap. Under this scenario, there are no additional funds for discretionary programs, such as the various education initiatives, child care, and climate change; nor will there be additional money for base restorations to programs, such as Low Income Home Energy Assistance Program (LIHEAP), the National Science Foundation (NSF), or the State Department.

Possible Funding Mechanisms

Our goal is still to provide you with $5 billion to allocate among competing proposals for new initiatives and to resolve some of the remaining base appeals. In early December, we described to you a procedural proposal that would allow additional spending under the discretionary caps by dedicating receipts through a new budget process, which we called CAPGO. Your concern at that meeting was that while the mechanism would free up $5 billion, it would increase the deficit compared to the baseline, and might weaken our ability to block efforts to "spend the surplus." We have been working on a deficit-neutral alternative very much like the current "PAYGO" approach, which we have used in reconciliation to offset new mandatory initiatives and also in the 1996 and 1997 Omnibus appropriations bills to provide additional resources within the discretionary caps for your priorities.

In addition to providing sufficient outlays to utilize the budget authority remaining under the caps, the CAPGO approach provided a means of accommodating additional funding concerns, such as infrastructure spending (particularly highways and airports) and NIH funding, over and above the $5 billion. In order to restore the resource level to where we would have been with CAPGO, we will need to generate outlay room to use the remaining $5 billion within the caps plus make room for an additional $3 billion so that we will have a total of $8 billion in budget authority and $4 billion in outlays to allocate above the passback levels.

($ billions)	Budget Authority	Outlays
Passback	557.7	561.7
Caps	562.7	561.7
Amounts Available	5.0	0.0
Amounts Needed	8.0	4.0
Remaining Need	3.0	4.0

Thus, our total problem is to find $3 billion in budget authority and $4 billion in outlays in FY 1999. We can accomplish this in two ways: (1) we can create room under the caps by moving discretionary programs to the mandatory side of the budget or into altogether new categories; or (2) we can use mandatory offsets to finance discretionary spending (as we used spectrum auction receipts and the privatization of the U.S. Enrichment Corporation to finance FY 1997 appropriations).

We propose using a combination of these two approaches, by creating investment funds for several high priority policy areas -- a 21st Century Research Fund (including NIH), a Fund for the Environment, and an Infrastructure Investment Fund. The money for the programs included in these new funds would be moved out of the discretionary caps, but still be subject to appropriation.

None of these new funds would increase the deficit. We propose using all or part of the following revenue/mandatory proposals to pay for the spending in these investment funds:

- *Tobacco Tax* -- We are exploring options to use some of the revenues from the tobacco tax to pay for a 21st Century Research for America Initiative, incorporating the base and proposed expansions of existing R&D program, creating additional headroom under the caps (discussed more fully below).

- *VA Tobacco* -- We are looking at options that recognize that the VA General Counsel's ruling requiring additional compensation stands until legislation is passed, that veterans will apply, and that some will be processed despite limited administrative resources. If this new benefit is repealed, these savings could be used to fund the various high priority policy issues (discussed more fully below).

- *Extension of the Superfund Tax* (mandatory -- $1.7 billion in 1999; $7.6 billion over 5 years) -- We are looking at options to use the extension of the Superfund tax to either move the funds from discretionary to mandatory or as a mandatory source to finance additional Superfund clean-up, an environmental initiative, or research programs.

- *FAA User Fees* -- We are looking at options to use new FAA user fees coupled with existing excise taxes to create headroom to fund an infrastructure initiative.

In general, the use of revenues to offset spending initiatives runs the risk of appearing like an increase in taxes to pay for additional spending. However, in the case of research, the spending and tobacco taxes are popular policies. In the case of Superfund, the Bipartisan Budget Agreement anticipated that the revenue would not be used as an offset for a tax cut but instead would be reserved to pay for new spending. We will send you a more detailed memo on the proposal to create these three new Funds next week.

Mandatory Offsets

We will also need other mandatory/revenue offsets to pay for new mandatory initiatives. As illustrated in the memos you have seen over the past few days, this could require a small or a very large amount of resources, depending on the specific initiatives you choose to pursue. We are relying on savings in several areas, including the following:

- *Cost Allocation* ($0.5 billion in 1999; $2.9 billion over 5 years) -- Restricts States' ability to shift State Administrative costs from TANF to Federally-funded administrative sources such as Food Stamps and Medicaid;

- *Education Loan Reforms* ($0.9 billion in 1999; $4.0 billion over 5 years) -- Provides a direct guarantee for student loans not in the direct loan program -- rather than relying on intermediaries -- and recalls all loan guarantee reserves, plus other student loan reforms and benefits for students; and,

- *State Bank Exam Fees* ($0.1 billion in 1999; $0.5 billion over 5 years)-- Requires the Federal Reserve to assess fees for examinations of state-chartered banks and bank holding companies (current law permits, but does not require, fees).

There are a number of other more controversial savings proposals:

- *Child Support Enforcement* -- Savings for child support enforcement (CSE) are highly controversial, because, even if the policy is legitimate, it suggests that the Administration is cutting CSE funding. The following options are cumulative, and build on one another.

    -- Option 1 ($.06 billion in 1999; and $0.3 billion over 5 years) requires States to charge a $25 user fee (with a waiver option) for non-TANF child support enforcement cases and adjusts Federal funding to reflect the increased State fees. All TANF collections would be redirected to the States and Federal grants for State administration would be reduced by an equivalent amount;

    -- Option 2 ($0.3 billion in 1999; $1.5 billion over 5 years) also reduces Federal funding to reflect increased TANF collections to States as a result of increased incentives; and

    -- Option 3 ($0.3 billion in 1999; $3.0 billion over 5 years), the most aggressive option, also reduces Federal funding by the amount of Federal payments in excess of current State child support administrative costs.

- *Two Agriculture Savings Proposals* ($0.3 billion in 1999; $1.6 billion over 5 years) -- Reduces the Export Enhancement Program (EEP) further than requested in FY 2001 through FY 2003. This makes sense because market conditions (high world commodity prices projected for the foreseeable future) do not warrant the use of EEP. USDA wants to make this change in appropriations, rather than in authorization, and use the savings for additional agricultural spending rather than as a general offset. A second proposal would close the Agricultural Market Transition Payment (AMTA) loophole, created in the 1996 Farm Bill, by making all payments to the landowner, rather than to the tenant, since income-support payments are based on land holdings. This is controversial, not because of the policy, but because it amends the 1996 Farm Bill.

Some of these savings options may lead to additional spending. For example, in order to achieve some of the student loan savings from guaranty agencies, some funds must be spent to cover the 100 percent direct guarantee and improve terms for borrowers. In addition, since the cost allocation savings come in large part from Food Stamps, there will be pressure to use some of the savings to restore Food Stamp benefits to legal immigrants. We might also want to use some of the agricultural savings to pay for selected discretionary initiatives, such as Water Quality.

VA Tobacco

The Veterans Affairs General Counsel recently ruled that the VA must pay monthly service-connected disability compensation benefits to veterans for tobacco-related illnesses that occur after separation from the military, if a veteran became addicted to nicotine while serving in the military. OMB estimates that 542,000 veterans are potentially eligible to claim benefits under this ruling, and an additional 6,600 will become eligible annually.

The Administration has already proposed legislation to eliminate these new benefits that will, if enacted, create a PAYGO offset to new mandatory spending. However, VA tobacco benefit costs have not yet been included in either the OMB or CBO baselines. After we raise the baselines to reflect payment of these benefits, a PAYGO credit will become available for eliminating these benefits. After both steps are taken, this proposal is deficit-neutral.

We plan to raise the mandatory baseline by $2.5 billion over 5 years, which assumes that we do not provide new administrative funds to VA to process tobacco-related claims. (This $2.5 billion will become available as a PAYGO offset when we again propose to repeal these benefits.) We could raise the baseline by much more -- as much as $26 billion total -- if we decided to add significant new administrative resources to process claims. However, we thought this option would both be inconsistent with our policy to repeal the benefit and increase the deficit by too much (i.e., if we raised the baseline, then used the savings created by the repeal to spend an additional $26 billion).

While we could raise the baseline by any number between $2.5 billion and $26 billion, and use that as an offset for mandatory initiatives, the most credible figure is between $2 billion and $8.8 billion. We have preliminarily chosen the $2.5 billion option.

Tobacco Revenues

We have discussed how potential tobacco revenues could pay for a research initiative and perhaps also create some additional room under the discretionary caps to fund other initiatives.

We believe it is important to limit our assumed revenues to a level that is seen as realistic and consistent with the principles you announced last summer. This means that, although we might assume that the per-pack equivalent could rise to $1.50 (in constant dollars) over ten years, some of those revenues will go to States and other claimants. Furthermore, in your statement last August, you did not specify what portion of the payment would be fixed and what portion tied to youth smoking targets. An announcement that the Administration wanted to use the full $1.50 might be seen as foreclosing a substantial youth incentive. For this reason, we have focused on a package that assumes revenues initially equal to 50¢ per pack, rising to $1.00 per pack by 2003 ($1.16 in current dollars), and have not specified what happens after 2003. Based on preliminary estimates, this would provide the following revenues (in billions of current dollars):

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	5 years
$8.1	$10.0	$12.2	$13.4	$15.0	$58.7

However, there are two alternate views of how much of the tobacco settlement we should try to apply to Federal programs:

(1) If State claims and the uses specified in the agreement are given first priority, this produces a Federal share of about $20 billion over the first five years (and an additional $15 billion if we can direct the States to spend their share on your new initiatives, such as child care); and

(2) If Federal and State claims and the private litigation reserve are funded first, but not the other settlement/constituency uses, this leaves the Federal share at about $30 billion.

Bruce Lindsey and Bruce Reed support the first option, and we prefer the second option. A possible compromise between the two options might assert funding levels for Federal initiatives without discussing the balance of the settlement. This leaves open the total that Congress may be willing to agree to fund.

Medicare

Medicare savings associated with error reductions -- acceptable to OMB, Chris Jennings, and HHS -- are roughly $2 billion over five years. We could also find additional savings:

- *Further Provider Savings* -- We do not recommend substantial new provider savings. Many changes in the Balanced Budget Act have not yet been implemented, and the newly-appointed Medicare Commission should be given time to do its work.

- *Income-Related Premiums* -- Depending upon the income level and phase-in schedule, early estimates are near $10-12 billion over five years, perhaps considerably more. The options are along the lines of the changes discussed last year.

Clearly, using Medicare savings to fund non-Medicare spending could complicate the task of achieving Medicare solvency and be criticized.

Revenues

We are discussing a number of new revenue-based initiatives, including changes to the child tax credit, climate change tax incentives, and a revised school construction proposal. We propose financing these initiatives with revenue proposals we made last year that were not adopted, or not fully adopted, in legislation. Depending on how aggressive you want to be, these proposals would produce revenues of up to $20 billion over 5 years. Last year's package included the following:

- *Modify Foreign Tax Credit Carryover Rules* ($1.2 billion over 5 years) -- We proposed to reduce the complexity and burdens associated with carrybacks by limiting foreign tax credit carrybacks to 1 year (down from 2 years) and extend foreign tax credit carryforwards for 7 years (up from 5 years).

- *Repeal Lower-of-Cost-or-Market Inventory Method* ($1.6 billion over 5 years) -- We proposed to repeal the lower of cost or market (LCM) method, because the allowance of write-downs under the LCM and subnormal goods methods is essentially a one-way mark-to-market method that understates taxable income.

- *Deny the Dividends-Received Deduction for Certain Preferred Stock* ($0.2 billion over 5 years) -- We proposed to eliminate the deduction of 70 to 100 percent for corporations owning certain limited-term preferred stock of a U.S. corporation because such stock is more like debt than an ownership interest in the issuing corporation.

More controversial proposals not included in last year's budget include:

- *Extend 2.5 Cent General Fund Tax on Gasohol* ($0.6 billion in 1999; $1.3 billion over 5 years) -- The 2.5 cents per gallon tax on gasohol that goes to Treasury's General Fund expires after September 30, 1999. The tax originated in 1990, as part of the nickel per gallon tax hike, of which half went to the General Fund and half to the Highway Trust Fund. In 1993, when an additional 4.3 cent tax was placed on fuels, most fuels subject to the 2.5 cent General Fund tax had this portion moved to the transportation trust funds, but ethanol did not.

- *Use One-Half Cent of the Gas Tax* ($.5 billion in 1999; $2.6 billion over 5 years) -- On an annual basis, current motor fuels taxes generate approximately $32 billion for the Highway Trust Fund (HTF). This includes the 4.3 cents originally earmarked for deficit reduction that was redirected from the General Fund to the HTF by the Taxpayer Relief Act of 1997. Any proposal to increase the motor fuels tax will likely generate criticism from transportation interests complaining that the HTF cash balances continue to mask the deficit while transportation needs go unmet. (The character of this criticism may change if highway spending is liberalized.) At the Bipartisan Budget Agreement spending levels, HTF cash balances rise from $26 billion in 1998 to $93 billion in 2003.

16 - 28,000
9% 20%

28,000 - 31,000
20%

80%

12-16 Budget Meeting (Erskine)
Mandatories

FOOD STAMPS

(Cost allocation - presumption that some will go to FS)

Fams w/ kids	2.2b over 5 (60% of total)
could come up w/ policies that are part of this.	
refugees/asylees $5 \rightarrow 7$ yrs	200 m
bring legal immig into ch. health prog	200 m
- - -	
SSI	700 m
Hungry immig	rounds to 0

12/1 Budget Meeting w/ POTUS

FR: Passback funding core ops + already announced Pres initiatives
Not to fund new initiatives couldn't come out of base - we've spent prior priority reserve - and still some agencies' passbacks are lower than FY98 budget.

New category - CAPGO -
take items out of discret ~~go~~ caps at 98 level - creates room under CAPS. In CAPGO, you can spend what you will - whatever you bring in from dedicated source. Domenici/Chafee idea.
Surface Transport - Then can spend additional 27b.
FAA - additional 8b
NIH - (alcohol/tobacco taxes) 12½ + ↑ would mean we could double over next 10 yrs.
Land/water Env. Fund - 1b.
Our benefit - gives us infrastructure program - gives more funding for roads etc but does in responsible way.
Downside of this proposal - starting in 2000, we add 7b a yr to deficit (almost all highway)

GS: Repubs will say we've created a vehicle for unltd tax + spend.
Also - we are spending some of the improvement here, which we've said we would not do.

DC: Favor on policy grounds - should be spending more on infrastructure make it more poss to ~~use the~~ raise funds to do discrete things.
But: 135b in "improvement" - This will eat into that - peanuts - but allows people to start chipping away at That. Worried abt us this initiative. how much are they going to come at us on taxes? Fine to have This + go home - but There will be more + more + more - bidding war on tax cuts.
Gets us a little pregnant.
EB: Your legacy is balanced budget. This cuts into That - real danger of

our starting wholesale rush.

DC: Also would need candid conversations w/ Dems. because this will make Repubs look moderately pro-govt - productive, etc.

FR: This is going to happen. Not good to look as if we're resisting.

Rubin: Ingenious + we need $ under caps.
But this really breaks principle - more spending! opens us up to a terrible problem.

FR: Not just spending the good news. Potential for worse event transport. will come out anyway - but in this responsible way.

GS: The Dems etc will say ~~as~~ if things get worse, then you have to have cuts (just as if things get btr, you get to spend more)
Also - good to get NIH out of Lbr-H approps bill.

BL: Variants (1) diff explan for this proposal
(2) just do NIH - make it look diff bec there is now $ from tobacco

so if can present as part of getting our fiscal house in order.
Part of budgetary reform - can't rob Peter to pay Paul.
transport taxes — other spending.

RG: Needs further vetting from leg standpoint
Also, leg is timing - response, not lead.

EB: Leading is bad idea. Could compromise w/ this to get them off their bad hiway deal.

PR: If do NIH alone, it's less conceptual - just looks like we're exempting 1 thing that we like a lot.

AG: Priority decisions are imbedded in the architecture of this piece. We're leading w/ set of priorities that will allow us to cmpromise w/ them - they are their priorities (e.g. why no superfund)

W/in NIH, NCI is especially important. Mass march in 9/98 -

CS: What about capital budgets? If we're making budget changes...

BC: Need mtg on list of ideas for SOTU.

Rubin: Need to pay attn to core part

NATIONAL INSTITUTES OF HEALTH -- FY 1999 BUDGET

(BA in millions)

	1998	1999	2000	2001	2002	2003	1999 - 2003
CASE A (12/19, am)							
Total NIH (including Clinical Trials)	**13,648**	**16,390**	**17,433**	**17,733**	**18,781**	**20,182**	**90,519**
Cumulative % Increase over FY98		20%	28%	30%	38%	48%	
National Cancer Institute	2,547	3,256	3,679	4,163	4,718	5,434	21,250
CASE B (12/19, pm)							
Total NIH	**13,648**	**14,988**	**16,125**	**17,307**	**18,771**	**20,473**	**87,663**
Cumulative % Increase over FY98		10%	18%	27%	38%	50%	
National Cancer Institute	**2,547**	**2,853**	**3,184**	**3,566**	**4,330**	**5,094**	**19,026**
Base	2,547	2,547	2,547	2,547	2,547	2,547	12,735
Cumulative % Increase over FY98		12%	25%	40%	70%	100%	
Non-NCI NIH	**11,101**	**11,795**	**12,601**	**13,401**	**14,101**	**15,039**	**66,937**
Base	11,101	11,101	11,101	11,101	11,101	11,101	55,505
Cumulative % Increase over FY98		6%	14%	21%	27%	35%	
Cancer Clinical Trials	**n/a**	**340**	**340**	**340**	**340**	**340**	**1,700**
CASE C (12/22)							
Total NIH	**13,648**	**14,648**	**15,657**	**16,712**	**17,922**	**19,282**	**84,221**
Cumulative % Increase over FY98		7%	15%	22%	31%	41%	
National Cancer Institute	**2,547**	**2,853**	**3,056**	**3,311**	**3,821**	**4,243**	**17,284**
Base	2,547	2,547	2,547	2,547	2,547	2,547	12,735
Cumulative % Increase over FY98		12%	20%	30%	50%	67%	
Non-NCI NIH	**11,101**	**11,795**	**12,601**	**13,401**	**14,101**	**15,039**	**66,937**
Base	11,101	11,101	11,101	11,101	11,101	11,101	55,505
Cumulative % Increase over FY98		6%	14%	21%	27%	35%	
Cancer Clinical Trials	**n/a**	**-**	**-**	**-**	**-**	**-**	**-**

Case A and B Exceed Case C by:

	1998	1999	2000	2001	2002	2003	1999 - 2003
Case A: NIH Total (includes $1.7b for trials)	-	1,742	1,776	1,021	860	900	6,298
NCI	-	403	623	852	898	1,191	3,966
Case B: NIH Total (includes $1.7b for trials)	-	340	467	595	849	1,191	3,442
NCI	-	-	127	255	509	851	1,742

On a Comparable Basis (i.e., excluding trials), A and B Exceed C by:

	1998	1999	2000	2001	2002	2003	1999 - 2003
Case A: NIH Total	-	1,402	1,436	681	520	560	4,598
NCI	-	403	623	852	898	1,191	3,966
Case B: NIH Total	-	-	127	255	509	851	1,742
NCI	-	-	127	255	509	851	1,742

OMB

RESEARCH FUND OPTIONS (Dollars in millions; fiscal years)

		1998	1999	2000	2001	2002	2003	1999-2003
Option 1	**NIH: $2.8 b in 1999**	13,648	16,399	17,349	18,354	19,417	20,542	92,060
Numbers from	Increase over Baseline		**2,751**	**3,701**	**4,706**	**5,769**	**6,894**	$\boxed{23,820}$
Friday morning	*Growth*		*20.2%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	***8.5%***
	Non-NCI proposed spending	*11,101*	*13,339*	*14,111*	*14,929*	*15,793*	*16,708*	***74,880***
	Increase over Baseline		*2,238*	*3,010*	*3,828*	*4,692*	*5,607*	***19,375***
	Growth		*20.2%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	***8.5%***
	NCI proposed spending	*2,547*	*3,060*	*3,238*	*3,425*	*3,624*	*3,833*	***17,180***
	Increase over Baseline		*513*	*691*	*878*	*1,077*	*1,286*	***4,445***
	Growth		*20.2%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	***8.5%***
	NSF: Baseline	3,429	3,242	3,235	3,215	3,185	3,270	
	NSF: $250 m in 1999	3,429	3,679	3,826	3,979	4,138	4,304	**19,927**
	Increase over Baseline		**437**	**591**	**764**	**953**	**1,034**	**3,780**
	Growth		*7.3%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	***4.6%***
	Other Research	831	1,226	1,374	1,539	1,724	1,932	**7,794**
	Increase over Baseline	*17,908*	**395**	**543**	**708**	**893**	**1,101**	**3,639**
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	***18.4%***
	TOTAL INCREASE		**3,583**	**4,835**	**6,178**	**7,615**	**9,028**	$\boxed{31,239}$
Option 2	**NIH: $1.3 b in 1999**	13,648	14,648	15,785	16,967	18,431	20,133	**85,964**
Numbers from	Increase over Baseline		**1,000**	**2,137**	**3,319**	**4,783**	**6,485**	$\boxed{17,724}$
Mid-day Friday	*Growth*		*7.3%*	*7.8%*	*7.5%*	*8.6%*	*9.2%*	***8.1%***
	Non-NCI proposed spending	*11,101*	*11,914*	*12,604*	*13,335*	*14,107*	*14,924*	***66,884***
	Increase over Baseline		*813*	*1,503*	*2,234*	*3,006*	*3,823*	***11,379***
	Growth		*7.3%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	***6.1%***
	NCI proposed spending	*2,547*	*2,734*	*2,892*	*3,059*	*3,237*	*3,424*	***15,346***
	Increase over Baseline		*187*	*345*	*512*	*690*	*877*	***2,611***
	Growth		*7.3%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	***6.1%***
	NSF: $250 m in 1999	3,429	3,679	3,826	3,979	4,138	4,304	**19,927**
	Increase over Baseline		**437**	**591**	**764**	**953**	**1,034**	**3,780**
	Growth		*7.3%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	***4.6%***
	Other Research	831	1,226	1,374	1,539	1,724	1,932	**7,794**
	Increase over Baseline	*17,908*	**395**	**543**	**708**	**893**	**1,101**	**3,639**
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	***18.4%***
	TOTAL INCREASE		**1,832**	**3,271**	**4,791**	**6,629**	**8,619**	$\boxed{25,143}$
	NCI baseline	*2,547*	*2,547*	*2,547*	*2,547*	*2,547*	*2,547*	
Option 3	**NIH: $1.1 b in 1999**	13,648	14,648	15,657	16,712	17,922	19,292	**84,231**
Numbers from	Increase over Baseline		**1,000**	**2,009**	**3,064**	**4,274**	**5,644**	$\boxed{15,991}$
Saturday	*Growth*		*7.3%*	*6.9%*	*6.7%*	*7.2%*	*7.6%*	***7.2%***
	Non-NCI proposed spending	*11,101*	*11,795*	*12,601*	*13,401*	*14,101*	*15,039*	
	Increase over Baseline		*694*	*1,500*	*2,300*	*3,000*	*3,938*	***11,432***
	Growth		*6.3%*	*6.8%*	*6.3%*	*5.2%*	*6.7%*	***6.3%***
	NCI proposed spending	2,547	2,853	3,056	3,311	3,821	4,253	
	Increase over Baseline		306	509	764	1,274	1,706	4,559
	Growth		*12.0%*	*7.1%*	*8.3%*	*15.4%*	*11.3%*	***10.8%***
	NSF: $250 m in 1999	3,429	3,679	3,826	3,979	4,138	4,304	
	Increase over Baseline		**437**	**591**	**764**	**953**	**1,034**	3,780
	Growth		*7.3%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	***4.6%***
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	**395**	**543**	**708**	**893**	**1,101**	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	***18.4%***
	TOTAL INCREASE		**1,832**	**3,143**	**4,536**	6,120	7,778	$\boxed{23,410}$

12/22/97

RESEARCH FUND OPTIONS (Dollars in millions; fiscal years)

NCI GROWTH 50% FASTER THAN NON-NCI

		1998	1999	2000	2001	2002	2003	1999-2003
Option 1	**NIH: $1.1 b in 1999**	13,648	14,848	15,784	16,781	17,843	18,975	84,231
$1.2 b in 1999	Increase over Baseline		1,200	2,136	3,133	4,195	5,327	15,991
$16 b over 5	*Growth*		*8.8%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.8%*
	Non-NCI proposed spending	*11,101*	*12,077*	*12,773*	*13,510*	*14,289*	*15,113*	
	Increase over Baseline		*976*	*1,672*	*2,409*	*3,188*	*4,012*	*12,258*
	Growth		*8.8%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	*6.4%*
	NCI proposed spending	2,547	2,771	3,011	3,271	3,554	3,861	
	Increase over Baseline		224	464	724	1,007	1,314	3,733
	Growth		*8.8%*	*8.6%*	*8.6%*	*8.6%*	*8.6%*	*8.7%*
NSF to $250 m	**NSF: $250 m in 1999**	3,429	3,679	3,863	4,056	4,259	4,472	
growth of 5%	Increase over Baseline		437	628	841	1,074	1,202	4,182
	Growth		*7.3%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.5%*
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	395	543	708	893	1,101	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*18.4%*
	TOTAL INCREASE		2,032	3,307	4,682	6,162	7,629	23,812
Option 2	**NIH: $1.5 b in 1999**	13,648	15,148	15,952	16,800	17,694	18,638	84,231
$1.5 b in 1999	Increase over Baseline		1,500	2,304	3,152	4,046	4,990	15,991
$16 b over 5	*Growth*		*11.0%*	*5.3%*	*5.3%*	*5.3%*	*5.3%*	*6.4%*
	Non-NCI proposed spending	*11,101*	*12,321*	*12,919*	*13,546*	*14,204*	*14,893*	
	Increase over Baseline		*1,220*	*1,818*	*2,445*	*3,103*	*3,792*	*12,378*
	Growth		*11.0%*	*4.9%*	*4.9%*	*4.9%*	*4.9%*	*6.1%*
	NCI proposed spending	2,547	2,827	3,033	3,254	3,490	3,745	
	Increase over Baseline		280	486	707	943	1,198	3,613
	Growth		*11.0%*	*7.3%*	*7.3%*	*7.3%*	*7.3%*	*8.0%*
NSF to $250 m	**NSF: $250 m in 1999**	3,429	3,679	3,863	4,056	4,259	4,472	
growth of 5%	Increase over Baseline		437	628	841	1,074	1,202	4,182
	Growth		*7.3%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.5%*
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	395	543	708	893	1,101	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*18.4%*
	TOTAL INCREASE		2,332	3,474	4,701	6,013	7,292	23,812
Option 3	**NIH: $1.2 b in 1999**	13,648	14,848	16,044	17,340	18,743	20,264	87,240
$1.2 b in 1999	Increase over Baseline		1,200	2,396	3,692	5,095	6,616	19,000
$19 b over 5	*Growth*		*8.8%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.2%*
	Non-NCI proposed spending	*11,101*	*12,077*	*12,967*	*13,922*	*14,948*	*16,050*	
	Increase over Baseline		*976*	*1,866*	*2,821*	*3,847*	*4,949*	*14,460*
	Growth		*8.8%*	*7.4%*	*7.4%*	*7.4%*	*7.4%*	*7.7%*
	NCI proposed spending	2,547	2,771	3,077	3,417	3,795	4,215	
	Increase over Baseline		224	530	870	1,248	1,668	4,540
	Growth		*8.8%*	*11.1%*	*11.1%*	*11.1%*	*11.1%*	*10.6%*
NSF to $250 m	**NSF: $250 m in 1999**	3,429	3,679	3,863	4,056	4,259	4,472	
growth of 5%	Increase over Baseline		437	628	841	1,074	1,202	4,182
	Growth		*7.3%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.5%*
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	395	543	708	893	1,101	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*18.4%*
	TOTAL INCREASE		2,032	3,567	5,241	7,062	8,919	26,821
Option 4	**NIH: $1.1 b in 1999**	13,648	15,148	16,217	17,364	18,595	19,916	87,240
$1.5 b in 1999	Increase over Baseline		1,500	2,569	3,716	4,947	6,268	19,000
$19 b over 5	*Growth*		*11.0%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.9%*
	Non-NCI proposed spending	*11,101*	*12,321*	*13,116*	*13,963*	*14,865*	*15,824*	
	Increase over Baseline		*1,220*	*2,015*	*2,862*	*3,764*	*4,723*	*14,585*
	Growth		*11.0%*	*6.5%*	*6.5%*	*6.5%*	*6.5%*	*7.3%*
	NCI proposed spending	2,547	2,827	3,101	3,401	3,730	4,091	
	Increase over Baseline		280	554	854	1,183	1,544	4,415
	Growth		*11.0%*	*9.7%*	*9.7%*	*9.7%*	*9.7%*	*9.9%*
NSF to $250 m	**NSF: $250 m in 1999**	3,429	3,679	3,863	4,056	4,259	4,472	
growth of 5%	Increase over Baseline		437	628	841	1,074	1,202	4,182
	Growth		*7.3%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.5%*
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	395	543	708	893	1,101	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*18.4%*
	TOTAL INCREASE		2,332	3,740	5,265	6,914	8,570	26,821

12/22/97

RESEARCH FUND OPTIONS (Dollars in millions; fiscal years)

NCI GROWTH EQUAL TO NON-NCI

		1998	1999	2000	2001	2002	2003	1999-2003
Option 1	**NIH: $1.2 b in 1999**	13,648	14,848	15,786	16,783	17,843	18,971	84,231
$1.2 b in 1999	Increase over Baseline		1,200	2,138	3,135	4,195	5,323	15,991
$16 b over 5	*Growth*		*8.8%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.8%*
	Non-NCI proposed spending	*11,101*	*12,077*	*12,840*	*13,651*	*14,513*	*15,430*	
	Increase over Baseline		*976*	*1,739*	*2,550*	*3,412*	*4,329*	*13,007*
	Growth		*8.8%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.8%*
	NCI proposed spending	2,547	2,771	2,946	3,132	3,330	3,540	
	Increase over Baseline		224	399	585	783	993	2,984
	Growth		*8.8%*	*6.3%*	*6.3%*	*6.3%*	*6.3%*	*6.8%*
NSF to $250 m	**NSF: $250 m in 1999**	3,429	3,679	3,863	4,056	4,259	4,472	
growth of 5%	Increase over Baseline		437	628	841	1,074	1,202	4,182
	Growth		*7.3%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.5%*
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	395	543	708	893	1,101	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*18.4%*
	TOTAL INCREASE		2,032	3,308	4,684	6,162	7,625	23,812
Option 2	**NIH: $1.5 b in 1999**	13,648	15,148	15,953	16,801	17,694	18,635	84,231
$1.5 b in 1999	Increase over Baseline		1,500	2,305	3,153	4,046	4,987	15,991
$16 b over 5	*Growth*		*11.0%*	*5.3%*	*5.3%*	*5.3%*	*5.3%*	*6.4%*
Even growth								
	Non-NCI proposed spending	*11,101*	*12,321*	*12,976*	*13,666*	*14,392*	*15,157*	
	Increase over Baseline		*1,220*	*1,875*	*2,565*	*3,291*	*4,056*	*13,007*
	Growth		*11.0%*	*5.3%*	*5.3%*	*5.3%*	*5.3%*	*6.4%*
	NCI proposed spending	2,547	2,827	2,977	3,135	3,302	3,478	
	Increase over Baseline		280	430	588	755	931	2,984
	Growth		*11.0%*	*5.3%*	*5.3%*	*5.3%*	*5.3%*	*6.4%*
NSF to $250 m	**NSF: $250 m in 1999**	3,429	3,679	3,863	4,056	4,259	4,472	
growth of 5%	Increase over Baseline		437	628	841	1,074	1,202	4,182
	Growth		*7.3%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.5%*
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	395	543	708	893	1,101	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*18.4%*
	TOTAL INCREASE		2,332	3,476	4,702	6,013	7,289	23,812
Option 3	**NIH: $1.2 b in 1999**	13,648	14,848	16,047	17,343	18,744	20,258	87,240
$1.2 b in 1999	Increase over Baseline		1,200	2,399	3,695	5,096	6,610	19,000
$19 b over 5	*Growth*		*8.8%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.2%*
Even growth								
	Non-NCI proposed spending	*11,101*	*12,077*	*13,052*	*14,107*	*15,246*	*16,477*	
	Increase over Baseline		*976*	*1,951*	*3,006*	*4,145*	*5,376*	*15,454*
	Growth		*8.8%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.2%*
	NCI proposed spending	2,547	2,771	2,995	3,237	3,498	3,781	
	Increase over Baseline		224	448	690	951	1,234	3,546
	Growth		*8.8%*	*8.1%*	*8.1%*	*8.1%*	*8.1%*	*8.2%*
NSF to $250 m	**NSF: $250 m in 1999**	3,429	3,679	3,863	4,056	4,259	4,472	
growth of 5%	Increase over Baseline		437	628	841	1,074	1,202	4,182
	Growth		*7.3%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.5%*
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	395	543	708	893	1,101	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*18.4%*
	TOTAL INCREASE		2,032	3,570	5,244	7,063	8,912	26,821
Option 4	**NIH: $1.1 b in 1999**	13,648	15,148	16,219	17,367	18,595	19,911	87,240
$1.5 b in 1999	Increase over Baseline		1,500	2,571	3,719	4,947	6,263	19,000
$19 b over 5	*Growth*		*11.0%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.8%*
	Non-NCI proposed spending	*11,101*	*12,321*	*13,193*	*14,126*	*15,125*	*16,195*	
	Increase over Baseline		*1,220*	*2,092*	*3,025*	*4,024*	*5,094*	*15,454*
	Growth		*11.0%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.8%*
	NCI proposed spending	2,547	2,827	3,027	3,241	3,470	3,716	
	Increase over Baseline		280	480	694	923	1,169	3,546
	Growth		*11.0%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.8%*
NSF to $250 m	**NSF: $250 m in 1999**	3,429	3,679	3,863	4,056	4,259	4,472	
growth of 5%	Increase over Baseline		437	628	841	1,074	1,202	4,182
	Growth		*7.3%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.5%*
	Other Research	831	1,226	1,374	1,539	1,724	1,932	
	Increase over Baseline	*17,908*	395	543	708	893	1,101	3,639
	Growth		*47.5%*	*12.0%*	*12.0%*	*12.0%*	*12.0%*	*18.4%*
	TOTAL INCREASE		2,332	3,742	5,268	6,914	8,565	26,821

12/22/97

Jennifer Friedman
12/23/97 11:00:08 AM

Record Type: Record

To: Elena Kagan/OPD/EOP

cc: See the distribution list at the bottom of this message
Subject: Head Start Options: Cost of Doubling Early Head Start

Below are estimates of the cost of expanding Head Start to 1 million children by 2002 under the tentative agreement policies ($150 million for both the quality set-aside and COLA in FY99 and outyears) and HHS' request (full COLA and quality set-aside every year). The numbers below also provide estimates for doubling the Early Head Start (EHS) set-aside to 10 percent by 2003 (because set-aside is a percentage of the total, the higher cost options increase the cost of the set-aside). All increments are shown as deltas from the FY98 level of $4,355 million.

Head Start Options (all dollars in millions)

	1998	1999	2000	2001	2002	2003	5 Year
1) BA (FY98 flatlined)	4,355	4,355	4,355	4,355	4,355	4,355	21,775
2) Tentative Agreement	-	+284	+505	+778	+1,054	+1,120	+3,741
3) HHS Request	-	+279	+617	+1,039	+1,480	+1,625	+5,040
4) Doubling EHS (tent. agreement policies)	-	+333	+611	+947	+1,294	+1,426	+4,612
5) Doubling EHS (HHS request policies)	-	+329	+725	+1,216	+1,740	+1,962	+5,972
Difference between 3 and 2		-5	+112	+261	+426	+505	+1,299
Difference between 5 and 4		-5	+113	+269	+446	+536	+1,360
Difference between 4 and 2		+49	+106	+169	+240	+306	+871
Difference between 5 and 3		+50	+107	+178	+260	+338	+932

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Barbara Chow/OMB/EOP
Barry White/OMB/EOP
Keith J. Fontenot/OMB/EOP
Edwin Lau/OMB/EOP
Sandra Yamin/OMB/EOP

Barry White
12/24/97 09:08:24 AM

Record Type: Record

To: See the distribution list at the bottom of this message

cc: See the distribution list at the bottom of this message
Subject: Dec. 23 Education Options

The attached table (also coming by fax to Kagan and Sperling/Orszag) is my understanding of what you did last night, as modified by Gene's late call that changed the cut in Teachers in Technology to a cut in Technology Literacy Challenge, and reserved $10 m for HUD.

As I have it, the total for spenders doesn't add up to the total for savers. I would put the difference, $9 m, into the Secretary's pot. Note that I did not get an instruction on the Secretary's Pot in your option, so I assumed you were retaining the $40 m that was in the OMB strawman for that purpose.

I have also shown you on the attachment Secretary Riley's distribution of minuses and pluses. I am told he worked on this personally.

edoptsb.wk4

Message Sent To:

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24-Dec-97
i:\data\99bud\edoptsB

ADDITIONAL EDUCATION OPTIONS

	Sperling/Kagan/Raines	Secretary Riley
USES:		
Title I	100	0
After School	100	0
Parochial schools	10	10
Early Head Start	24	0
HUD	10	0
Special ed	0	132
Voc Rehab	0	50
Voc Ed	0	20
Sec discretion	40	43
	284	**255**
SOURCES:		
Teachers in technology	0	-80
Pell Grants	-185	-150
Research on minority access	0	-15
Learning on Demand	-10	-10
Ed Opportunity Zones	-25 -	0
Tech Literacy Challenge	-25 -	0
Voc Rehab	-33 -	0
Work Study	-15	0
	-293	**-255**

Secretary Riley's small adds	
Eisenhower teacher training (above 98)	5
Tech Nat'l Leadership (Sec. disc.)	2
Arts in Education (= 1998)	1
College Board AP fee (Bingaman)	3
HBCUs (bigger increase than HSIs)	5
International ed (Obey)	10
Inst. for Ed Leadership (Bill Gray)	1
Nat'l Writing Project (helps reading)	5
Howard U. (shift one-time 98 cost into base	9
Guaranteed loan admin	2
	43

23-Dec-97 ALTERNATIVE EDUCATION BUDGET REDISTRIBUTIONS -- Revised

i:\data\99bud\edopts (BA in millions)

GOAL: INCREASE SELECTED BASE PROGRAMS; REDISTRIBUTE about $350 MILLION

	1998	1999 Tent	Option 1	Rev. total	Comments
SOURCES, OPTION 1:					
From initiatives:					
Ed Opportunity Zones	---	225	(55)	170	Same BA as College-School+Info campaign. DPC objects.
Training Teachers in Tech	---	80	(80)	0	Fund from Tech Lit Challenge. NEC objects.
Learning on Demand	---	40	(30)	10	Same as DOL share. NEC objects.
From Other:					
Pell re-estimate	NA	NA	(185)	NA	Pell increase over 98: $249 m
TOTAL			**(350)**		
ALTERNATIVE SOURCES:					
From initiatives:					
Ed Opportunity Zones		225	(55)	170	Same BA as College-School+Info campaign. DPC objects.
Training Teachers in Tech		80	(25)	55	Split b/n new BA and share of TLChallenge. NEC objects.
Learning on Demand		40	(20)	20	Double DOL share. NEC objects.
From Other:					
Pell re-estimate	NA	249	(185)	NA	
Perkins loan cap cont.	135	50	(25)	25	Accelerate phase-down
Supp. Ed. Opportunity Grants	614	614	(31)	583	
Even Start	124	124	(22)	102	Delete Repub substitutes for America Reads
Eisenhower	335	335	(25)	310	Delete Repub substitutes for America Reads
Vocational Rehab #1	2,591	2,656	(33)	2,624	Half the increase from 1998
Vocational Rehab #2	2,591	2,656	(32)	2,592	No increase. Straightline voc rehab
Work-Study	830	915	(15)	900	Smaller increase from 1998
			(468)		
USES, OPTION 1:					
Increase After-School	40	100	100	$\boxed{200}$	Part of Child Care Initiative
Title I LEA Grants	7,375	7,467	59	7,526	
Title I Parochial schools	41	0	10	10	
Pell	7,345	7,594	158	7,752	Raise Max Award another $50, to $3,150
Misc. small prog; Sec. disc.	NA	NA	23	23	(Inc. AP fee); satisfy some small political problems and S&E
TOTAL			**350**		
ALTERNATIVE USES:					
Restore EOZs to $225			55		
Restore Teach/Tech, LOD			55		
Increase Pell another $50, to $3,200; no more title I			314		First $50 costs $158 m; second $50 costs $156 m
Increase title I a total of $500 m; no more Pell			150		
Misc. small prog; Sec. disc.			40		Satisfy more small political problems and S&E

-25 EOZs
-25 training/tech
-10 learning
-185 Pell
-33 voc rehab
-15 wk study

293

100 AS
100 T. I

93 ?

24 HStart

→ 69

Food safety - early January

FY 1999 Budget -- Potential Small Message Items

√ o LIHEAP is maintained at $1.1 billion base program plus $300 million for contingencies. **[THE VP SHOULD TELL THIS STORY VERY SOON]**

o Head Start increases $284 million, for an FY 1999 total of $4.6 billion; for an increase of at least 36,000 slots to a total of at least 872 thousand, on the way to the President's goal of one million slots by 2002.[Head Start numbers may change]

o WIC increases $172 million, for an FY 1999 total of $4.1 billion, to maintain the President's commitment to fund WIC for 7.5 million recipients.

o Youth Opportunity Areas: $250 million (subject to authorization) for a new program providing intensive services for unemployed out-of-school youth in a select number of high poverty areas, such as Enterprise Zones, to boost employment of youth in those areas from about 50% TO 80%.

o Dislocated workers: increases $50 million, for an FY 1999 total of $1.4 billion. Five year increase: $750 million.

o Job Corps: increases $62 million, for an FY 1999 total of $1.3 billion, opening 5 new center, increasing capacity by 1,150, thereby serving an additional 1,800 new young people annually.

o Department of Labor; labor law enforcement (5 agencies) increases $52 million, or 5%, for an FY 1999 total of $1.04 billion.

o National Labor Relations Board: increases $9 million, for an FY 1999 total of $184 million.

Education Department programs: ALL EDUCATION NUMBERS ARE STILL OPEN AT THIS TIME

o Technology in Education investments increase $75 million, for an FY 1999 total of $659 million.

o Title I-Education for the Disadvantaged Local Education Agency Grants: increases $409 million, for a total of $7.8 billion.**[est. Not final]** [largest el/sec program]

o Charter Schools: increases $20 million, for an FY 1999 total of $100 million. [public school choice]

o Adult education: increases $33 million for an FY 1999 total of $394 million.

o Pell grants: increases $407 million, for an FY 1999 total of $7.75 billion, and an increase to the maximum award of $150, for a total maximum award of $3,150, the highest ever. **[est. Not final]**

o College Work-study: increases $85 million for an FY 1999 total of $915 million and over 1 million slots, achieving the President's 1 million goal a year ahead of schedule.

o Teacher Recruitment and Preparation: provides a new program, at $67 million, to recruit and train new elementary and secondary school teachers.

o Minority Science Improvement: increases $2.2 million, for an FY 1999 total of $7.5 million.

o Master Teachers: increases funds for the National Board for Professional Teaching Standards by $2.5 million, for a total of $21 million in FY 1999, increasing the Board's progress toward the President's cumulative goal of 105,000 master teachers (equivalent of one in every school) by 2006.

o Hispanic issues: **These and other Hispanic issues should not be leaked before discussion with the Hispanic Caucus**

  Hispanic serving institutions: (postsecondary schools). Increases $16 million, for an FY 1999 total of $28 million.

  Historically Black Colleges and Universities: increases $16 million, for an FY 1999 total of $134 million.

  Bilingual education: increases $33 million, for an FY 1999 total of $232 million.

  Migrant Education: increases $50 million for an FY 1999 total of $394 million.

√4th

o Peace Corps We will propose to increase the budget by 19 per cent from $226 million in FY 1998 to $270 million in FY 1999, putting the agency on a path to have 10,000 volunteers overseas by the year 2000.

o Export-Import Bank - Funding will increase by 18 per cent from $697 million in FY 1998 to $825 million in FY 1999. Export industries will support.

o Consumer Product Safety Commission - (+$1.5 million) This is a 3.3% increase over FY98 Enacted of $45 million.

o Family Planning (+$4 million) This is a 2.0% increase over FY98 Enacted of $ 203.5 million. Continues Clinton policy of $4-5 million increases each year.

12/31 AL Alvin

- o <u>Health Care Quality -- AHCPR</u> (+$13.5 million) This is a 90.0% increase over FY98 Enacted of 15.0 million. Helps HHS expand quality-related activities and address forthcoming recommendations from the President's Commission on Consumer Protection and Quality in the Health Care Industry.

- o <u>Reducing Race-Related Disparity in Health</u> (+$80 million) New item. Uses health education, prevention, and treatment services to help reduce the continuing disparities in the burden of death and illness experienced by certain minority groups

Sandy/ leak to paper

- o <u>Ryan White</u> (+$165 million) This is a 14.3% increase over FY98 Enacted of $1.1 billion. Expands Federal and State funding for powerful "combination therapy" drugs, increases Federal funding for the AIDS Drug Assistance Program, and provides grants to States and clinics for medical care, social support services.

- o <u>Substance Abuse Block Grant</u> (+$100 million) This is a 7.6% increase over FY98 Enacted of $1.3 billion. Narrows the substance abuse treatment gap and helps to reduce the spread of AIDS by increasing access to substance abuse treatment for injecting drug users.

- o <u>IRS Customer Service</u>: The Administration is requesting $103 million for IRS to improve customer service. During 1997, we heard from the American public that we needed to improve how the IRS assist the taxpayers in complying with very complicated tax laws. To make the annual tax filing season easier for all, we will be expanding staff and hours for toll-free telephone operations; expanding office hours to make it easier to get answers in person; expanding electronic filing by increasing the number of taxpayers who can use Telefile (the telephone filing system); and beginning to invest in the information systems necessary to support customer service goals.

tomorrow

- o <u>Homeless Assistance</u>: Homeless assistance will increase, from 1998 enacted level of $823M to $1,139M, which includes first-year funding for 3[illegible],000 housing vouchers.
  2

- o <u>CDBG and HOME grants</u>: Small increases also are provided for HUD's two popular block grants: CDBG and HOME.

- o <u>Neighborhood Reinvestment Corporation</u>: The budget proposes $90 million for the NRC, including $25 million for a new "Playing by the Rules" Homeownership Initiative. This level represents a 50 percent increase over the 1998 enacted level of $60 million.

- o <u>The President's Youth Crime Gun Interdiction Initiative (ATF)</u>: The budget proposes $28 million for the President's Youth Crime Gun Interdiction Initiative, a 27 city effort to identify the sources of guns used by juveniles for crime. Of the $28 million, $12 million will be used to continue the expansion of gun tracing and $16 million will be used to hire 162 agents to conduct firearms trafficking investigations.

- o [EEOC]: The Administration proposes $279 million for the EEOC as part of an overall commitment to provide increased resources for civil rights law enforcement. This level is $37 million or 15 percent higher than the 1998 enacted level of $242 million.

- o SEC: SEC's gross program level is $341 million, an increase of more than 8 percent over the FY 1998 level of $315 million. This increase is targeted to market supervision and surveillance activities and for retention of critical skills in which SEC is experiencing high turnover.

- o FEMA mitigation grants: FEMA mitigation grants to reduce the costs of future disasters are proposed at $50 million, an increase of $20 million over the FY 1998 funding level.

- o SBA assistance for minorities: SBA 7(j) technical assistance for minority enterprise development is at $7.6 million, almost triple the FY 1998 level of $2.6 million.

- o Department of Defense counter-drug budget Funding for FY 1999 is $882 million. This represents an increase of 1.6% (in current dollars) over FY1998 enacted levels. The Department will focus its efforts on source nation and U.S. supply reduction and interdiction of illegal drugs at the U.S. border. The DoD increase will fund additional operational and procurement assistance to our Central and South American allies as they seek to reduce drug production in their countries.

- o Climate Change -- Budget fully incorporates the POTUS $5B commitment.

- o Env Resources for America Fund - announce components (especially water quality and land/facility restoration. **Clean Water and Watershed Restoration Initiative** -- over $500 million (discretionary and mandatory) for increased State assistance, help to farmers, and enhanced Federal lands restoration; this funding includes full support for the ongoing Everglades and Bay-Delta work. Increased LWCF Fed land acq, construction/maintenance backlog, and historic preservation funding from the **Land/Water/Facility Restoration Fund.**

- o New timber policy -- cut in new road construction.

- o Millennium -- +$50 million for preservation activities (DOI, other Fed agencies, National Trust, and States/localities/non-Feds).

- o Law enforcement in Indian Country -- +$205 million over 1998 enacted as a joint DOI/DOJ initiative, with no DOJ takeover of law enforcement on Indian reservations.

- o tribal colleges (+$5 million over 1998 enacted).

- o New ESA partnerships for working with land owners and streamlining of the Endangered Species Act administration ($75 million - land owner incentives are $5 million).

- Roosevelt family, Top Cottage;

- President Carter, the boyhood home rehabilitation.

- DOT/Federal Railroad Administration. 32 additional railroad safety inspectors and safety staff to ensure that our railroads do not constitute a hazard ($5M initiative).

- DOT/National Highway Traffic Safety Administration. While the exact amount of the increase is still in play, the 1999 budget will include at least a $47M increase for alcohol and highway traffic safety grants and initiatives to implement the President's EO to implement higher seat belt use.

- DOJ/ Fingerprint Ident (FBI). This year will complete the transition to new, improved fingerprint id processes at the FBI's IAFIS center in W.Va.

- DOJ/DNA Identification Grants to States. Funding increases from $12M in 1998 to $15M in 1999.

- DOJ/Tuberculosis in prison grants. A growing problem, and DOJ will provide $1M in 1999 for this purpose.

- DOC/Economic and Statistics Analysis. $6M increase to ESA to improve the quality of core economic indicators.

- National Science Foundation Funding $3.680 billion in 1999, a 7% increase from 1998; 4% annual increases thereafter through 2003 when funding will rise to $4.304 billion.

- National Spallation Neutron Source $157 million in 1999, $1.1 billion over five years. Over the next five years, the Department of Energy will build the NSNS. This modern neutron source will allow researchers to conduct cutting-edge research; this new facility fills a major gap in the U.S. scientific infrastructure.

- California Bay-Delta Initiative Multi-agency initiative to restore the California Bay-Delta Ecosystem. Funded at $143 million in FY 1999 and FY 2000, which represents the full amount authorized by the 1996 authorization of this program. Affected agencies: Interior, Corps of Enginners, EPA, Agriculture, and Commerce

Bruce N. Reed
12/18/97 06:01:34 PM

Record Type: Record

To: Elena Kagan/OPD/EOP

cc:
Subject: HHS Tobacco and Food Safety Budgets

Any merit to these concerns?

---------------------- Forwarded by Bruce N. Reed/OPD/EOP on 12/18/97 06:01 PM ---------------------------

Jerold R. Mande

12/17/97 07:34:21 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP

cc: See the distribution list at the bottom of this message
Subject: HHS Tobacco and Food Safety Budgets

Here is an update on HHS's tobacco and food safety budgets. I am concerned that these programs are in trouble and in need of your help to receive adequate funding in the President's FY99 budget.

Tobacco

For FY99, OMB is recommending a $30 million increase ($21M for CDC for state programs and $9M for FDA). HHS is currently requesting on appeal to OMB an increase of $120M over the FY98 level ($74M for CDC and $46M for FDA). FDA's increase will enable it to contract with all states to effectively enforce its tobacco rule. As you know, effective enforcement is essential to making access restrictions work. CDC will put $49M toward state programs, $20M toward counter advertising, and $5M toward surveillance and research. At this funding level, CDC will provide each state with $1 million on average, which is less than the $1.2 million average the 16 ASSIST states currently receive. Studies indicate states need about $10 million each to replicate the reductions in youth smoking that California and Massachusetts have achieved. I believe HHS initially requested an increase of $136 million over FY98 for tobacco. For FY98, FDA received $34 million for tobacco, which is an increase of $29.1 million over FY97. CDC received $28.4 million, which is an increase of $7 million over FY97, however the President had requested a $15 million increase. NIH received $25 million for the ASSIST program the same as in FY97 (beginning in FY99 ASSIST will move to CDC -- the CDC budget request reflects the move).

Food Safety

For FY99, OMB is recommending a $30 million increase for HHS ($5M for CDC and $25M for FDA). HHS is currently seeking $44 million on appeal ($5M for CDC and $39M for FDA ($22M for imports and $17M for domestic)). I am trying to determine whether the HHS appeal is on top of the OMB $30 million or instead of it. HHS initially requested a $109 million increase ($21M for CDC and $88M for FDA ($27M for imports and $61M for domestic)). At OMB's currently recommended level of funding the Administration will not be able to achieve many of goals we have already promised in the President's Food Safety Initiative. $5 million would not enable CDC to put in place the early warning system the President promised last January, and $25 million for FDA, depending on how it is divided between imports and domestic, either is just short of what FDA needs to implement the produce initiative the President announced in October with no new money for the programs the VP announced in May, or well short of what is needed for imports and also well short of what is needed domestically.

Message Copied To:

Thomas L. Freedman/OPD/EOP
Donald H. Gips/OVP @ OVP
Toby Donenfeld/OVP @ OVP
Laura Emmett/WHO/EOP
Christopher C. Jennings/OPD/EOP

12-18-97 Appeals Mtg

EPA: Superfund - promised 250 sites
will not be honored
can do it at 450 FY 2000 advance funding
FR - You can get sites if you change policy

ONDCP: Prevention / treatment / SW border
+7% / +8% in 1st 2 yrs
recoup # in prison costs

HHS: Research ~~drug~~ trust fund - not only NIH but also CDC/AHCPR
HCFA - need for children, etc.
Head Start - need quality investments
Child Health -
Also - Tobacco - FDA implementation
Food Safety
Infectious Diseases
Cancer Clinical - into Med. Trust Fund from tobacco - as sunset

Ed: Have to have credible budget for base supporters
Ed groups / Cong Dems.

EdFlex in 50 states - fed reg waivers (now in 12 states)

Transp: Aviation Safety
Coast Guard
Infrastructure investment
Amtrak

VA: Want same level as last yr. (220 m)
Will get it anyway
Don't give them chance to complain.

USDA: School Breakfast Program (Child Nutrition Act Reauth)
1.4b over 5
Snacks

Working Document

EDUCATION PROGRAM PRIORITIES

	ED Appeal	Change from Passback	Change from FY98
New Presidential Initiatives, Discretionary			
Urban Initiative	225.0	+ 225.0	+ 225.0
After-School/ 21st Century Community Learning Centers	200.0	+ 160.0	+ 160.0
School-College Partnerships/ Mentoring	150.0	+ 150.0	+ 150.0
Early Information on College Access	20.0	+ 20.0	+ 20.0
Subtotal:		**+ 555.0**	**+ 555.0**
Core Programs that Address Our Essential Base			
Title I*	8,300.0	+ 336.0	+ 398.0
IDEA	5,060.0	+ 249.4	+ 249.4
Vocational/ Adult Education	1,584.0	+ 121.0	+ 76.3
Bilingual and Immigrant Education	390.0	+ 36.0	+ 36.0
Indian Education	69.0	+ 9.0	+ 9.2
Civil Rights IV (Race Initiative)	14.3	+ 7.0	+ 7.0
Campus Based Student Financial Aid (Hispanic Initiative)	1,754.0	+ 256.0	+ 120.0
TRIO (Hispanic Initiative)	570.0	+ 40.0	+ 40.0
Subtotal:		**+ 1,054.4**	**+ 935.9**
Continuing Presidential Education Reform Priorities			
Goals 2000	536.0	+ 35.0	+ 45.0
Eisenhower Professional Development	335.0	+25.0	---
Safe and Drug Free Schools	558.0	+ 27.0	+ 2.0
NAEP/ Research/ Math & Reading/Nat'l Bd. for Teaching Standards	459.7	+134.8	+ 84.3
Subtotal:		**+ 221.8**	**+ 131.3**
Investments and Actions to Help Minimize Support for Vouchers and Block Grants			
Aid to Parochial Schools:			
Title I, with Aguilar, helps poor kids in parochial & public schools		included above	included above
Eisenhower helps teacher training in public & private schools		included above	included above
Expanding Choice and Fixing Failing Schools:			
Charter Schools	100.0	---	
Bring choice to neighborhood schools (Obey/Porter)-- Title I/ FIE	200.0	+200.0	+ 50.0
Ed-Flex: Add Appropriations language to expand Ed-Flex to all 50 states and, in those participating states, extend flexibility to local school districts.	---	---	---
Subtotal:		**+ 200.0**	**+ 50.0**
Priorities for Key Members of Congress			
Advanced Placement Exam Fee (Bingaman)	3.0	+ 3.0	---
HBCU's (Clay)	134.5	+ 10.5	+ 16.0
International Education (Obey)	62.8	+10.7	+ 2.5
National Writing Project (Miller/Cochran)	5.0	+ 5.0	---
Other		+ 50.0	—
Subtotal:		**+ 79.2**	**+ 18.5**
Executive Order on Employment of People with Disabilities			
Rehabilitation Services amount above CPIU baseline	---	+ 200.0	+ 200.0
TOTAL		**+ 2,310.4**	**+ 1,890.7**

* Included in this amount are several Title I line items that, in addition to being essential to our base support, are priorities to key members of Congress, including: +$10 m for Capital Expenses (Specter); + $22 m for Even Start (Goodling); + $25.3 m for Migrant Education (Becerra); and + $8 m for State School Improvement.

This appeal asks for $2.3 billion over the original OMB Passback.

Department Of Health and Human Services

Appeals

(Dollars in Millions)

PROGRAM		APPEAL
21st Century Health Research Trust Fund: AHCPR, CDC, and NIH	$	1,343.3
Health Care Implementation	$	66.0
Health and Well Being of Children	$	340.5
Tobacco	$	120.0
Food Safety	$	44.1
Emerging Infectious Diseases	$	42.5
TOTAL	**$**	**1,956.4**

PROGRAM		APPEAL
Alzheimer's	$	6.0
Anti-Terrorism	$	9.4
Diabetes	$	11.0
Elderly Nutrition	$	40.0
Environmental Disease Prevention	$	9.2
Family Planning	$	5.0
Food and Drug Administration User Fees	$	114.0
Health Statistics	$	22.9
Immunization	$	10.0
Indian Health Services	$	116.4
Leadership and Operations	$	116.0
Low Income Home Energy Assistance	$	142.0
National Youth Sports	$	16.2
Organ Transplantation	$	1.3
Race Initiative	$	30.0
Refugee and Entrant Assistance	$	55.0
Ryan White/AIDS	$	110.0
Sexually Transmitted Diseases	$	13.0
Substance Abuse	$	335.9
TOTAL	**$**	**1,163.5**

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

Meeting with the President
Budget Appeal: Drug Control Funding
December 19, 1997

Public Attitudes Toward Drugs:

- A survey commissioned by the Robert Wood Johnson Foundation and the Harvard School of Public Health which was conducted in September and October found that people think drug abuse is the biggest single problem facing American children today. When asked what were the two or three most serious problems facing American children, **56% said drugs or drug abuse**.

- In light of these findings, Americans seem prepared to support additional efforts to protect their children from this problem. Now is the right time to revitalize our drug control programs.

Total Funding:

- ONDCP requests **$17.4 billion** in FY 1999, an increase in the Federal Drug Control Budget of **$1.4 billion**, which includes about $1 billion for new programs.

- OMB's initial allowance on November 25 provided only about **$0.2 billion** above FY 1998 -- half the amount needed just to maintain current programs.

- OMB's proposed funding for FY 1999 and the outyears will not fully support the National Drug Control Strategy.

Major FY 1999 Appeal Items

- Close the Treatment Gap (+**$200 million** above passback)
  - Necessary to reduce drug crime and health costs
  - Over 3 million Americans are chronic drug users

- Proposed funding would provide a significant start to reducing the treatment gap in FY 1999. By FY 2003, ONDCP's proposed budget would provide treatment to an additional 850,000 people.

- Port & Border Security (+**$244 million** above passback)
  - Responds to President's Southwest Border Initiative
  - Would provide for 1,000 new Border Patrol Agents
  - Includes funding of over 500 new Customs Inspectors/Agents and mobile X-ray systems for the Southwest Border

- Andean Coca Reduction (+**$111 million** above passback)
  - Responds to initiatives outlined at the Summit of the Americas
  - Would expand alternative development in the region
  - Aids host nation efforts to interdict flow of coca base and cocaine

- Mexico Initiative (+**$30 million** above passback)
  - Supports work of High Level Contact Group
  - Would assist Mexico in the development of a self-sustaining interdiction capability

- Caribbean Initiative (+**$135 million** above passback)
  - Responds to the President's Barbados Summit
  - Includes nearly $70 million to support Coast Guard's Maritime Operations
  - Would provide about $31 million to enhance Customs narcotics enforcement activities primarily at South Florida ports-of-entry

- Defense Support -- On December 12, Secretary Cohen amended DoD's drug budget to provide an additional $73.3 million in FY 1999. These resources are part of ONDCP's appeal cited above for the Andes, Mexico, and the Caribbean.

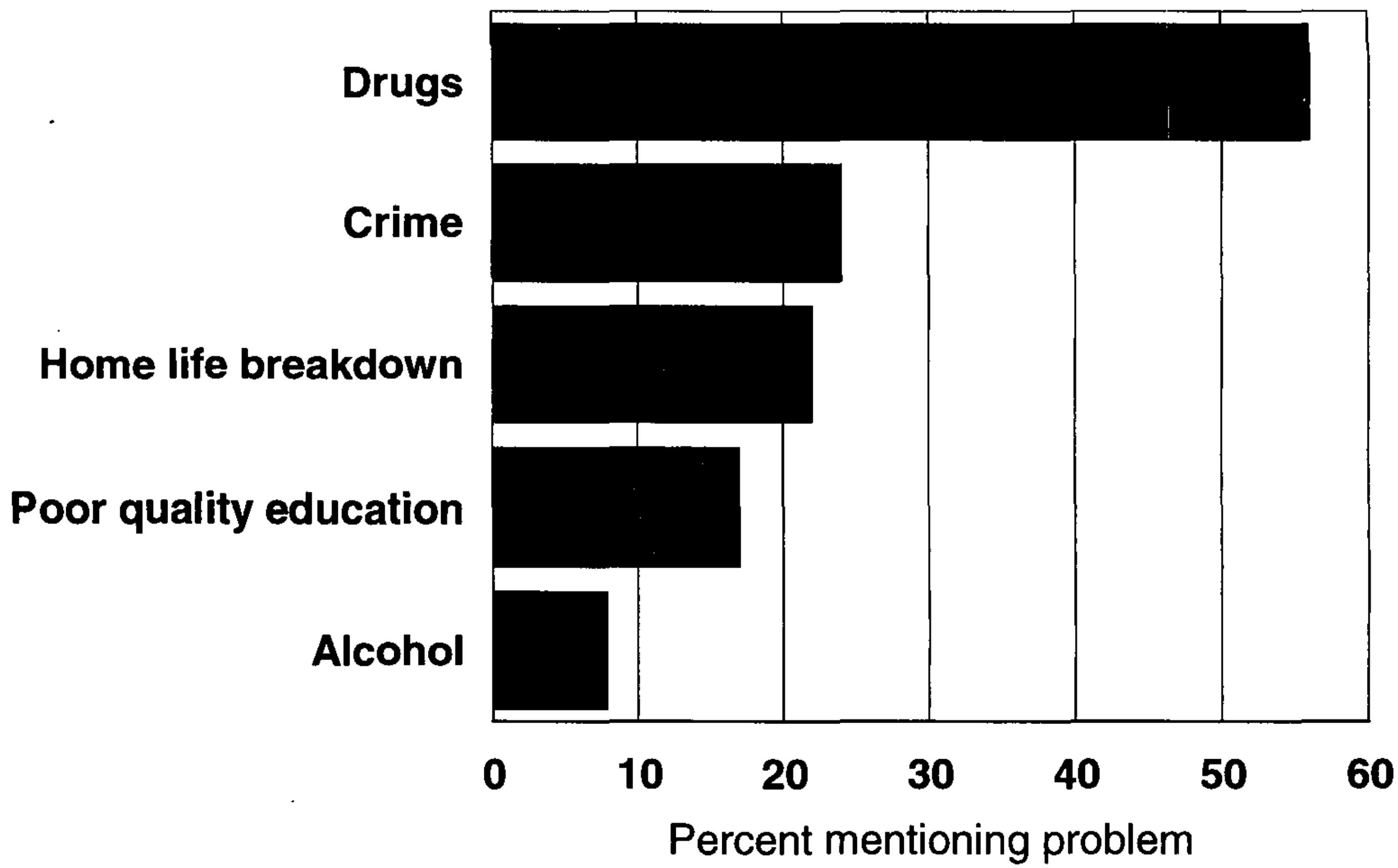
Summary:

- **Demand Reduction** -- We must continue strong support for demand reduction efforts. OMB proposals provide wrong balance between law enforcement, prevention and treatment. **ONDCP supports:**
    - New funding for Education's **School Coordinator Initiative (+$27 million)**
    - Sustained support for the **Safe and Drug-Free Schools** program, not the diversion of these resources to other demand reduction efforts as proposed by OMB. ONDCP opposes diversion of **$195 million** from this program to other demand reduction efforts. President requested an increase of $64 million for this program in FY 1998. Significantly reducing this program in FY 1999 would send the wrong message to Congress and the American people.
    - Additional HHS resources for **treatment (+$200 million)** and **research (+$30 million)**
- **Outyear Funding** -- We have committed to providing Congress with a five-year drug budget. ONDCP's outyear estimates are based on identified needs for key programs. OMB's estimates are principally an arithmetic exercise, with no funding for new efforts beyond FY 1999. The budget must be built on the Drug Strategy.
- **Investment in the Future**
    - Drug use and its consequences are a terrible menace to our society. Each year illegal drugs kill more than **16,000 Americans** and cost taxpayers nearly **$70 billion**.
    - **Forty-five percent** of us as Americans know someone who has suffered an addictive problem. Drug abuse affects both national security and public health. To mitigate these problems, we must act.
    - The drug problem can be turned-around on the remainder of the President's watch if we invest in the Strategy. This will represent a gift to the American people -- reduced drug use, availability, and lower health and crime consequences.

FY 1999 - FY 2003
DRUG CONTROL BUDGET APPEAL

BRIEFING FOR THE PRESIDENT
December 19, 1997

PUBLIC'S VIEW OF TOP PROBLEMS FACING CHILDREN IN 1997

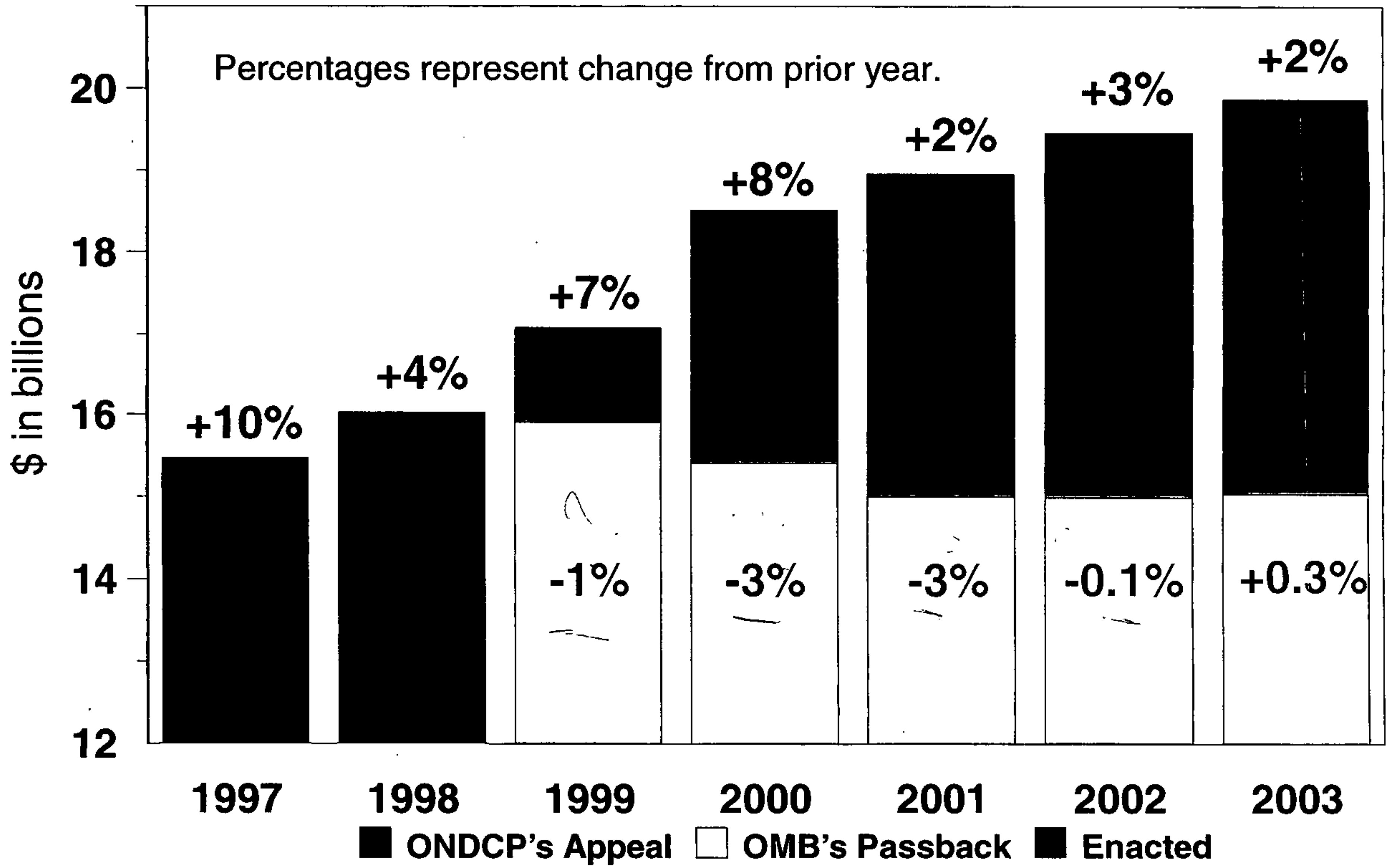


Source: Harvard/Robert Wood Johnson/University of Maryland (1997)

ONDCP
19DEC97

ONDCP'S 5-YEAR BUDGET PROPOSAL VS. OMB'S PASSBACK

(Constant 1998 Dollars)



ONDCP 12/97

FY 1999 Request is $17.4 billion, a 9% increase. ONDCP's Major FY 1999 Appeal Items:

- School Counselors Initiative (+$27M in new funding)
- No diversion of funding for Safe & Drug-Free Schools (+195M)
- Close the Treatment Gap (+$200M)
- Port & Border Security (+$244M)
  - Supports President's Southwest Border Initiative
  - 1,000 new Border Patrol Agents; over 500 Customs staff
- Andean Coca Reduction ($111M). Supports work of Summit of the Americas
- Mexican Initiative ($30M). Supports efforts of High Level Contact Group
- Caribbean Initiative ($135M)
  - Implements initiatives outlined at Barbados Summit
  - Nearly $70M to support Coast Guard's Maritime Operations

SURFACE TRANSPORTATION OPTIONS

Mandatory and Discretionary Budgetary Resources ($ in Millions)

OPTION	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY98-03	
FY 1998 Proposed (BR)	24,026	23,850	23,709	23,654	23,631	23,657	142,527	
98 Enacted	27,798	27,798	27,798	27,798	27,798	27,798	166,788	← we have to be here (SH)
Passback (BR)	26,077	26,133	26,201	26,324	26,450	27,005	158,190	
Revised passback at 98 enacted	27,798	27,798	27,798	27,798	27,798	27,798	166,788	
NEXTEA (Authorization)	28,356	28,240	28,144	28,116	28,107	28,840	169,803	
Chaffee-Bond (Authorization)**	27,062	26,782	27,397	27,975	28,928	29,162	167,306	
Senate (Authorization)	29,547	29,554	29,892	30,310	31,028	32,065	182,396	
Spend annual TF receipts	29,153	33,146	33,834	34,085	34,746	35,349	200,313	← where end up (SH)
Senate with Gramm-Byrd (Authorization)	29,547	35,479	35,968	36,523	37,334	38,516	213,367	
Shuster (Authorization)	30,556	34,669	38,681	38,681	38,681	38,681	219,949	
Amtrak	793	621	571	521	521	521	3,548	

***Original Chaffee-Bond proposal did not spend the 4.3 cents once allocated to the General Fund. Now that the 4.3 cents goes to the TF, Chaffee-Bond would equal option below to spend all TF receipts

6 billion
in 5th yr.
needed

98 enacted in
make room in 99
for rest - do CAP60 case later

SURFACE TRANSPORTATION OPTIONS --DELTA FROM PASSBACK

Mandatory and DIscretionary Budgetary Resources ($ in Millions)

OPTION	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY98-03
Revised passback at 98 enacted	1,721	1,665	1,597	1,474	1,348	793	8,598
NEXTEA (Authorization)	2,279	2,107	1,943	1,792	1,657	1,835	11,613
Chaffee-Bond (Authorization)**	985	649	1,196	1,651	2,478	2,157	9,116
Senate (Authorization)	3,470	3,421	3,691	3,986	4,578	5,060	24,206
Spend annual TF receipts	3,076	7,013	7,633	7,761	8,296	8,344	42,123
Senate with Gramm-Byrd (Authorization)	3,470	9,346	9,767	10,199	10,884	11,511	55,177
Shuster (Authorization)	4,479	8,536	12,480	12,357	12,231	11,676	61,759
Amtrak (absolutes)	793	621	571	521	521	521	3,548

***Original Chaffee-Bond proposal did not spend the 4.3 cents once allocated to the General Fund.
Now that the 4.3 cents goes to the TF, Chaffee-Bond would equal option below to spend all TF receipts

PROPOSED ALLOCATION OF MANDATORY RESOURCES
(dollars in billions over 5 years)

State share of tobacco tax	**14.8**	**Child care and development block grant**	**7.5**
		Teachers	**7.3**
Mandatory offsets	**21.5**	**Major new initiatives***	
		Additional funding for research initiative	11.6
		Early childhood development	3.0
		Higher education	1.7
		Legal immigrants	2.5
		Funding prior commitments and other obligations**	**2.7**
		Presidential appeals	**?**
Medicare (non-premium offsets)	**1.8**	**Pre-65 buy-in**	**1.8**

*Will also include +$5 billion for school construction financed by tax revenues.

**Other includes empowerment zones, Fast Track, USDA environment activities, Filipino veterans, transportation, DC court pensions, SSI admin, and Winstar litigation.

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RESEARCH INITIATIVE
(dollars in millions)

Sources of funding

- **Reevaluated priorities to free up $4.5 billion**
- **Tobacco tax revenue produces additional $7 billion over 5 years**
- **Recommended additional cents per pack**

	99	00	01	02	03
Base	0.50	0.65	0.80	0.90	1.00
New	**0.62**	**0.80**	**0.90**	**1.00**	**1.10**

Research Fund for America

- **Doubles the National Cancer Institute in five years**
- **Increases the National Institutes of Health by 48 percent in 2003**
- **Provides $1.7 billion for cancer clinical trials through the NIH**
- **Adds $30 billion over five years**

	FY 1998	FY 1999	5 years
National Institutes of Health (all)	13,648	16,399	92,060
National Science Foundation (all)	3,430	3,679	19,928
NASA	--	75	1,627
Energy	58	222	1,437
NIST	63	40	155
Next Generation Internet	85	100	200
Partnership for New Generation Vehicles	255	315	1,575
Other (VA Medical Research, USDA, etc.)	369	474	2,382
Total, Research Fund	**17,908**	**21,304**	**119,364**
Increase Under the Fund	--	**4,119**	**30,242**

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INVESTMENT FUNDS IN THE FY 1999 BUDGET
(dollars in millions)

	FY 1998	FY 1999	5 years
RESEARCH FUND FOR AMERICA			
National Institutes of Health (all)	13,648	16,399	92,060
National Science Foundation (all)	3,430	3,679	19,928
NASA	--	75	1,627
Energy	58	222	1,437
NIST	63	40	155
Next Generation Internet	85	100	200
Partnership for New Generation Vehicles	255	315	1,575
Other (VA Medical Research, USDA, etc.)	369	474	2,382
Total, Research Fund	**17,908**	**21,304**	**119,364**
Increase Under the Fund	**--**	**4,119**	**30,242**
ENVIRONMENT FUND FOR AMERICA			
EPA, Superfund	1,500	2,094	7,720
EPA, Clean Water SRF	1,350	800	4,000
EPA, Drinking Water SRF	725	825	4,125
Interior Land and Water Restoration	1,048	1,114	6,632
USDA Water 2000	577	629	3,339
Multi-Agency Water Quality Program	1,655	2,105	10,725
Total, Environment Fund	**6,855**	**7,567**	**36,541**
Increase Under the Fund	**--**	**881**	**5,667**
TRANSPORTATION FUND FOR AMERICA			
Surface Transportation (DOT)	27,063	25,397	128,007
FAA (includes Airport Grants)	9,076	9,618	54,035
Flight 2000 Free Flight Demonstration	--	90	316
Total, Transportation Fund	**36,139**	**35,105**	**182,358**
Increase Under the Fund	**--**	**1,250**	**6,250**
TOTAL, ALL THREE FUNDS	**60,902**	**63,976**	**338,263**
TOTAL INCREASE, ALL THREE FUNDS	**--**	**6,250**	**42,159**

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Consensus Discussion Draft for Tax Side of the FY99 Budget, Preliminary Scoring

19-Dec-97	1998-2003	1998-2008
Tax Initiatives		
Provision:		
Child Care		
Child and Dependent Care Tax Credit Increase	-5208	-12123
Employer child-care subsidies (Kohl), plug number	-800	-2000
Tax Incentives for Carbon-Saving Technology	-3500	-7500
Pensions		
Expand pensions for workers not covered by qualified plans (payroll deduction or SAFE)	-500	-1200
Education Initiatives		
State pre-paid tuition plans, plug number	-750	-1700
Cover Grad students with Section 127	-439	-439
School Construction (expand Rangel's Qualified Zone Academy Bonds)	-5000	-16000
Increase Per Capita Cap (to $1.75 from $1.25) for Low-Income Housing Tax Credit	-1634	-6500
One-Year Extension of Expiring Provisions		
Work Opportunity Tax Credit (to 6/30/99)	-427	-430
Welfare-to-Work tax credit (4/31/00)	-168	-180
R&E tax credit (6/30/99)	-2211	-2220
Contributions of stock to private foundations (6/30/99)	-118	-118
Generalized system of preferences (6/30/99)	-400	-400
Make permanent the expensing of brownfields remediation costs	-534	-1338
Miscellaneous Provisions		
Modified Jefferson SSBIC proposal	-30	-60
TBOR and simplification proposal, under development	-3000	-6000
International Provisions		
Keep Section 30A, the Puerto Rico Tax Credit, rough	-417	-3870
Africa Subsidy, rough	-70	-146
Caribbean Basin Initiative, rough	-87	-150
Total	**-25293**	**-62374**
Payfors		
Provision (Most viable previously-introduced provisions):		
Modify foreign tax credit carryover rules	1154	1840
Repeal lower-cost-or-market inventory method	1583	1851
Deposit requirement for FUTA	1358	1511
Reinstate Oil Spill Liability Trust Fund taxes	1224	1424
Repeal components-of-cost inventory method	976	2209
Miscellaneous Other Raisers	1796	4868
Subtotal	**8091**	**13703**
Less viable previously-introduced provisions:		
Sales source rule	6380	14250
Section 1031 like-kind exchange modifications	1653	3581
Reduce dividends-received deduction to 50%	1774	3729
Conversion of large corporations into S corporations	143	597
Subtotal	**9950**	**22157**
New Raisers (Under development but not vetted and fully worked out)		
Set of accounting, corporate, estate and gift, excise tax, partnership, insurance and miscellaneous raisers (preliminary, rough total)	7000	18000
Total	**25041**	**53860**

-- R&E tax credit (6/30/99): $2.2
-- contributions of stock to private foundations (6/30/99): $0.1
-- make permanent brownfields expensing: $0.5.

- **International provisions:** The Administration has strongly supported several international initiatives (including some trade initiatives that for quirky reasons appear on the tax side of the Budget). These include

  -- a one-year extension of the generalized system of preferences (to 6/30/99): $0.4
  -- a five-year African initiative ($70 million)
  -- a one-year (or two-year) initiative for the Caribbean Basin ($87 million for one year, 207 for two)
  -- Section 30A, the Puerto Rico wage tax credit, ($0.4)

- **Miscellaneous Provision**: We promised to support a modified version of Congressman Jefferson's initiative for specialized, minority-owned investment companies.

o Important policy calls need to be made on an additional set of provisions, including tax incentives for carbon-saving technology, education, the low-income housing tax credit, and taxpayer bill of rights and simplification provisions.

Tax incentives for carbon-saving technology

1. <u>Energy efficient building equipment</u> ($0.3 to $0.6). A tax credit would be provided for 10 percent (or 20 percent) of the price of certain highly efficient building equipment, such as heat pump hot water heaters, fuel cells, natural gas heat pumps, and residential size electric heat pumps. The credit would be provided to households and businesses that purchase eligible equipment. Equipment eligible for the credit would be selected according to the potential for substantial increases in energy efficiency over conventional equipment, and for the potential to accelerate the development and diffusion of energy-efficient technologies.

   - Complements initiative to attract attention to energy star labels. Barriers to these investments (information, financing) addressed through other programs. May be inefficient because the government is picking the technology winners. Subsidies may be supporting technologies that turn out to be losers and may crowd out other potentially more energy efficient technologies.

2. <u>Fuel efficient vehicles</u> ($0.2, but could be larger if subsidize less far-reaching technology). A tax credit would be provided for the purchase of vehicles with fuel economy three times their 1997 class average. The maximum credit under discussion would be $4,000, but would phase down beginning in 2008 and phase out in 2011. Half the credit would also be

provided for purchases of vehicles achieving two times their 1997 class average, which would phase down beginning in 2003 and phase out in 2006.

- Supports commercialization of vehicles under development in the Partnership for a New Generation of Vehicles. Most eligible vehicles may be foreign and purchased by high-income persons.

3. Electricity produced from wind and certain biomass ($0.1 to $0.3). Current law provides taxpayers a 1.5 cent per kilowatt hour tax credit adjusted for inflation after 1992 for electricity produced from wind or "closed-loop" biomass. The electricity must be sold to an unrelated third party and the credit applies to the first 10 years of production. The credit expires for facilities placed in service after June 30, 1999. The proposal would extend the current credit for five years to facilities placed in service before July 1, 2004.

   - Supports commitment to renewables. Limited emissions reduction potential since wind power is limited geographically and is not continuously available.

4. Rooftop solar systems ($0.2). A credit would be provided for 10 or 15 percent of the purchase price of rooftop solar systems. Eligible systems would include rooftop photovoltaic systems and thermal systems. The maximum credit would be $1,000 for solar hot water heaters and $2,000 for rooftop photovoltaic systems.

   - Helps to implement the President's Million Solar Roofs initiative. Will be purchased primarily by high-income households. Primarily benefits people who heat swimming pools, unless pools are specifically excluded. In 1995, 88 percent (by square feet) of solar thermal collectors were for pool heating.

5. Transit and vanpool benefits ($0.1). Employers would be allowed to offer their employees transit and vanpool benefits in lieu of compensation, beginning January 1, 1999. Under current law, employers may only offer transit and vanpool benefits if such benefits are in addition to, not in lieu of, other compensation. The proposal would enact the same change for transit and vanpool benefits that the Taxpayer Relief Act of 1997 enacted for parking benefits.

   - Allows employers to provide tax free transit and vanpool benefits in lieu of compensation, a preference now available to parking benefits. Expands the difference in tax treatment of different forms of compensation.

6. Industrial cogeneration ($0.1). A tax credit would be provided for investment in industrial-based cogeneration turbines. The credit rate could be set between 10% and 40%, depending on the desired degree of subsidy. The credit would be available for units with generating capacities of less than 5 MW (or perhaps 10 MW). Qualified units could not be a replacement of currently installed cogeneration equipment. The credit would be available

only to industrial taxpayers, where the produced electricity and heat are not ordinarily available for sale to others. Extension of the credit to cogeneration in commercial buildings could also be considered.

- Could accelerate the adoption of this well-established technology. The definition of eligible equipment would have to be refined, particularly in view of past history of problems in defining cogeneration. Installation of this equipment is already economic in many situations; the credit may merely provide a windfall for those already willing and able to install cogeneration equipment.

7. Combined heat and power energy systems ($0.9). All combined heat and power (CHP) assets would be assigned a 7-year depreciation recovery period. Such assets are used in the production of electricity and process heat and/or mechanical power from the same primary energy source. CHP property used to produce electricity that is not ordinarily available for sale to others has a 15-year recovery period under current tax law, while an asset that is a structural component of a building has a depreciable life of 39 years (if nonresidential) or 27.5 years (if residential). The proposal would also change depreciation methods. A CHP asset would be depreciated using the 200 percent declining-balance method, instead of the methods currently employed: 150 percent declining-balance for 15-year assets, and straight-line for building components.

   - Not clear that IRS could define these systems adequately; cogeneration has history of definitional problems. Barriers to the adoption of these technologies are addressed in electricity restructuring and accelerated permitting by EPA. Slippery slope -- no evidence has been provided that shows that the present depreciation recovery periods are incorrect. Permanent subsidy through the tax code.

8. Methane recovery ($0.5 to $0.8). A production tax credit would be provided to facilities that produce electricity or energy from qualifying methane sources. Proposed qualifying sources are landfills not covered by EPA landfill rules, livestock and manure management facilities, and qualifying coal mines. The credit rate would be around $1.10 per million Btu in 1999.

   - Would reduce emissions of methane, an potent greenhouse gas. Would be difficult to monitor and administer, unless restricted to third-party sales.

9. Energy efficient homes (rough estimate not yet available). A tax credit would be provided for the purchase of highly energy efficient new homes that use innovative building designs. Homes eligible for the credit would be certified by a government agency. The maximum credit under discussion is in the $2,000-$3,000 range.

   - Would encourage the purchase of new energy efficient houses. The proposal does not address the largest housing related energy problem -- old homes are inefficient. This proposal would be extremely difficult to administer as there presently is no federal program that certifies the energy efficiency of new homes.

Discussion Draft for Tax Side of the FY99 Budget

18-Dec-97	1998-2003	1998-2008
Tax Initiatives		
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Child and Dependent Care Tax Credit Increase	-5208	-12123
Employer child-care subsidies (Kohl), plug number	-800	-2000
Tax Incentives for Carbon-Saving Technology	-2500 3.5	-5500
Pensions		
Expand pensions for workers not covered by qualified plans (payroll deduction or SAFE)	-500	-1200
Education Initiatives		
State pre-paid tuition plans, plug number	-750	-1700
Cover Grad students with Section 127	-439	-439
School Construction (expand Rangel's Qualified Zone Academy Bonds)		
Increase Per Capita Cap for Low-Income Housing Tax Credit	-749	-3234
One-Year Extension of Expiring Provisions		
Work Opportunity Tax Credit (to 6/30/99)	-427	-430
Welfare-to-Work tax credit (4/31/00)	-168	-180
R&E tax credit (6/30/99)	-2211	-2220
Contributions of stock to private foundations (6/30/99)	-118	-118
Generalized system of preferences (6/30/99)	-400	-400
Make permanent the expensing of brownfields remediation costs	-534	-1338
Miscellaneous Provisions		
Modified Jefferson SSBIC proposal	-30	-60
TBOR and simplification proposal, under development	-4000	-8000
International Provisions		
Keep Section 30A, the Puerto Rico Tax Credit, rough	-417	-3870
Africa Subsidy, rough	-70	-146
Caribbean Basin Initiative, rough	-87	-150
Total (less school construction)	**-19408**	**-43108**
Payfors		
Provision (Most viable previously-introduced provisions):		
Modify foreign tax credit carryover rules	1154	1840
Repeal lower-cost-or-market inventory method	1583	1851
Deposit requirement for FUTA	1358	1511
Reinstate Oil Spill Liability Trust Fund taxes	1224	1424
Repeal components-of-cost inventory method	976	2209
Miscellaneous Other Raisers	1796	4868
Total	**8091**	**13703**
Less viable (or viable with modifications), previously-introduced provisions:		
Average cost basis for securities	1862	3969 out
Sales source rule	6380	14250
Section 1031 like-kind exchange modifications	1653	3581
Reduce dividends-received deduction to 50%	1774	3729
Conversion of large corporations into S corporations	143	597
Total	**11812**	**26126**
New Raisers (Under development but not vetted and fully worked out)		
Set of accounting, corporate, estate and gift, excise tax, partnership, insurance and miscellaneous raisers (preliminary, rough total)	7000	18000
Total Range	**15000 to 27000**	**32000 to 58000**

5 school construction

.8-.9

25m total

POTENTIAL ALLOCATION OF MANDATORY RESOURCES
(dollars in billions over 5 years)

State share of tobacco tax	**14.8**	**Child care and development block grant**	**7.5**
		Teachers	**7.3**
Mandatory offsets	**15.2**	**Major new initiatives***	
		Cancer research	4.1
		Cancer clinical trials	1.0
		Early childhood development	3.0
		Higher education	1.7
		Legal immigrants	2.5
		Funding prior commitments and other obligations**	**2.7**
		Presidential appeals	**?**
Medicare (non-premium offsets)	**1.8**	**Pre-65 buy-in**	**1.8**

*Will also include +$5 billion for school construction financed by tax revenues.

**Other includes empowerment zones, Fast Track, USDA environment activities, Filipino veterans, transportation, DC court pensions, SSI admin, and Winstar litigation.

FINANCING ADDITIONAL RESEARCH

(dollars in billions over 5 years)

SOURCE			USE		
A.	Current add for research	11.1	Double NCI	8.0	
	Current add for clinical trials	0.7	Same dollar increase for other NIH (X% increase)	8.0	+37%
B.	Proceeds from reallocation	5.1			
			Additional increase for clinical trials	1.0	(total)
	Total	**16.9**		**16.9**	

Tax

	99	00	01	02	03	Resulting revenues over 5 years:	
Base	0.50	0.65	0.80	0.90	1.00	35	to fed govt / 15 directed state 20 fed direct
A.	0.62	0.72	0.82	0.92	1.00	+3	
B.	0.62	0.78	0.94	1.10	1.25	+10	
C	0.62	1.00	1.45	1.45	1.45	+23	Roughly Kennedy
D.	0.62	1.00	1.50	1.75	1.75	+28	Above Kennedy

Changing the Mix

A.	Increase Federal share from 57\43 to 75\25	+5
B.	Reduce AG share by 50 percent	+6

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INVESTMENT FUNDS IN THE FY 1999 BUDGET
(dollars in millions)

	FY 1998	FY 1999	5 years
RESEARCH FUND FOR AMERICA			
National Institutes of Health (all)	13,648	14,648	79,338
National Science Foundation (all)	3,430	3,679	19,928
NASA	--	75	1,627
Energy	58	222	1,437
NIST	63	40	155
Next Generation Internet	85	100	200
Partnership for New Generation Vehicles	255	315	1,575
Other (VA Medical Research, USDA, etc.)	624	789	3,957
Total, Research Fund	**17,908**	**19,553**	**106,642**
Increase Under the Fund	--	**1,799**	**17,520**
ENVIRONMENT FUND FOR AMERICA			
EPA, Superfund	1,500	2,094	7,720
EPA, Clean Water SRF	1,350	800	4,000
EPA, Drinking Water SRF	725	825	4,125
Interior Land and Water Restoration	1,048	1,114	6,632
USDA Water 2000	577	629	3,339
Multi-Agency Water Quality Program	1,655	2,105	10,725
Total, Environment Fund	**6,855**	**7,567**	**36,541**
Increase Under the Fund	--	**881**	**5,667**
TRANSPORTATION FUND FOR AMERICA			
Surface Transportation (DOT)	27,063	25,397	128,007
FAA (includes Airport Grants)	9,076	9,618	54,035
Flight 2000 Free Flight Demonstration	--	90	316
Total, Transportation Fund	**36,139**	**35,105**	**182,358**
Increase Under the Fund	--	**1,250**	**6,250**
TOTAL, ALL THREE FUNDS	**60,902**	**62,225**	**325,541**
TOTAL INCREASE, ALL THREE FUNDS	--	**3,930**	**29,437**