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July 3, 1997

MEMORANDUM FOR THE PRESIDENT AND VICE PRESIDENT

FROM: **MARIA ECHAVESTE**

SUBJECT: **OPL WEEKLY REPORT** - June 28 to July 3

ACTIONS SUPPORTING PRESIDENTIAL INITIATIVES

BUDGET

- OPL coordinated the First Lady's speech to a very enthused audience of 400 board members of the American Nurses Association (ANA) on Friday, June 28. She highlighted aspects of the budget including children's health, Medicare, and Medicaid. ANA is very disappointed with the Administration's cut in HHS Health Professions funding for nursing education which was cut by 89%--from $63.2 million in FY 1997 to $7.7 million in FY 1998.

Tax Cut Proposal:

- The Business Outreach office e-mailed and faxed copies of the summary information on your tax cut proposal to approximately 120 key Washington business representatives and trade associations. We asked them to share the information with their corporate executives and member organizations. The trade association network reaches out to well over 200,000 members.

- In addition to informing the corporate community, we distributed the tax proposal information -- to highlight our capital gains tax cut and home office deduction -- to the key small business organizations (NFIB, Small Business Legislative Council, Small Business United, National Association of Women Business Owners, U.S. Chamber Small Business office and the National Association of the Self-Employed).

- OPL is assisting NEC and OVP in planning and developing an invitation list for Monday's tax roll out event with the Vice President focusing on how your tax package helps urban areas. We will have approximately 40 business representatives at the event representing cities, urban areas and financial institutions.

- We mailed to African American constituents the tax cut proposal and OMB's administration view on S. 947. We also helped to secure at least ten national black associations' participation in the Vice President's tax cut event on Monday, July 7, 1997.

- The Women's Office identified female city and county local officials to attend the Vice President's tax cut briefing. OPL also compiled a list of women business leaders to be invited to the Vice President's Center for National Policy speech. We have expanded our search nationwide to find individual working women who can share their stories about how they benefit from the child tax credit and the EITC. In addition, we distributed copies of the President's tax proposal to 25 women's organizations.

HEALTH INSURANCE FOR CHILDREN

- Ron Pollack, of Families USA, and Marian Wright Edelman, of the Children's Defense Fund, are urging the White House to do an event with the President and leaders of groups supporting the Children's Health Initiative to highlight the following messages: cost sharing; benefits package; no sunsetting; and allocating $24 billion for children's health. This puts the groups on record as supporting the President and highlights the issues prior to the House-Senate conference on the budget.

- OPL coordinated the President's video message for a satellite appearance hosted by Families USA and the National Association of Children's Hospitals, which was attended by Senators Chafee (D-RI) and Rockefeller (D-WV). The "town meeting" was entitled 'Children's Health Coverage Expansion' and was fed into 30 locations across the U.S. Each location held local events with community, state and federal officials to highlight the children's health issue while Members of Congress are back home for the 4th of July recess. Press included NPR and regional affiliates.

- OPL coordinated a meeting with Chris Jennings and 20 representatives of consumer, labor, seniors, and provider groups to strategize for conference. The issues raised include Medicare, Medicaid, DSH, Children's Health, and MEWAs.

RACE/UNITY INITIATIVE

- OPL distributed copies of your remarks in San Diego to various leaders (from grassroots activist to business leaders) of the following constituencies on both a national and local level: 200 from the Asian Pacific Islander community, nearly 1,000 to African Americans, over 300 to the Jewish community and over 100 to European Ethnics.

- We also secured op-eds on the Race and Reconciliation Initiative from Mary Frances Berry, U.S. Commission on Civil Rights, in over 100 African American newspapers. We solicited an op-ed from Reverend Charles Smith which appeared in the Boston Globe. We also submitted a report on the "National Voice for a 21st Century" Race Symposium.

- OPL, DPC, Communications and other offices are organizing the first meeting of the Race and Reconciliation Advisory Board to take place on July 14.

- We are starting to meet with hate crimes victims advocates and state and local law enforcement officials in preparation for the November 10th White House Conference on Hate Crimes. We are also working closely with the DOJ Hate Crimes Task Force, which, among other things, is developing a legislative proposal for expanding federal hate crimes protections, in some cases, to the disabled, women and gays and lesbians. Senator Kennedy may offer such a proposal before the August recess in connection with the consideration of the Juvenile Justice legislation.

EDUCATION

- We met with the National Urban League (NUL) and the National Alliance of Black School Educators (NABSE) who are ready to take a leading role in their communities to support your National Education Standards Initiative. We have confirmed a meeting next week with the NAACP Legislative Director and received a tentative confirmation for a meeting with CBTU President Bill Lucy for each organization to consider taking a significant role in their communities to support your Education Initiative.

- We followed up on your satellite address to LULAC by meeting with their leadership to explore opportunities to mobilize LULAC's membership around the America Reads initiative. LULAC will be working with OPL and the Department of Education to develop a mentoring program in targeted cities. The goal is to have something to announce when Education releases its report on the Hispanic high school drop-out rate in the fall.

CONSTITUENT AND OTHER ISSUES

NATO ENLARGEMENT

- OPL was a joint organizer of the send-off event on Thursday for the President as he leaves for Madrid to attend the NATO summit. Approximately thirty ethnic group leaders will attend the event who have worked on NATO enlargement since the inception of the President's Partnership for Peace policy in early 1994. Also included in the audience are approximately 150 veterans representing over twenty veteran service organizations. This event will help the American people focus on the historic significance of the Madrid trip and build support for the NATO enlargement, support we will need since the treaty will have to be ratified by Congress after the President returns home.

AIDS

- HHS appears close to a recommendation that the restrictions on the use of federal funds for needle exchange programs be lifted. Meanwhile, there is an effort to remove HHS's authority to do so as part of the Labor-HHS Appropriations Sub-Committee mark-up now scheduled for July 15th.

RURAL

- OPL coordinated an event with the Vice President and Secretary Glickman on Friday, June 28, announcing the Water 2000 roll-out for funding rural drinking water projects ($121 million for safe drinking water for rural Americans.) The groups following issues that affect rural America were very pleased with this announcement and to see the Administration highlight an issue that affects rural Americans.

OZONE

- OPL coordinated public health, women's and children's groups interested in environmental issues to participate in a conference call with Katy McGinty (CEQ) about the Ozone announcement on Wednesday, July 2.

EUROPEAN ETHNIC

- Pictures and a press release from the Vice President's immigration press conference were sent to all the top ethnic papers and all the Polish papers highlighting the story of the Polish immigrant, Dorota Kiedos, who gave an impassioned appeal for humane welfare reform for legal immigrants.

- OPL sent a press release announcing Bill Lan Lee's nomination and highlighting that he is the son of immigrants to all the top ethnic papers.

ASIAN OUTREACH

- Met with APA appointees to discuss how to mobilize the community around the Bill Lee nomination and the President's race initiative.

- Met with NSC to discuss planning stages of celebrations for the 50th Anniversaries of both India and Pakistan. The Indo and Pakistani American communities will be hosting a plethora of local and national events in which they would like to see the Administration participate. We are working with NSC to ensure that the Administration participates in a way that is even handed for both communities.

BUSINESS

- OPL assisted Ira Magaziner in organizing and planning the Electronic Commerce announcement event this week. We also worked with the Vice President's office to schedule a pre-event with the Vice President and approximately 30 of the CEOs attending the event to discuss the proposal. Coordinated press opportunities for 6 strategic CEOs following the event including Steve Case, America On Line, Macdara Macoll, Parent Soup, Louis

Gerstner, IBM, and others. Currently assisting in follow-up activities to the business community including thank you letters to participants and distribution of report to other contacts.

DISABILITY

- Legislation calling for the depiction of Roosevelt's disability in the FDR Memorial has passed the Senate and will likely pass in the House in early July. We are currently reviewing a request from the disability community for a formal bill signing ceremony at the White House.

AFRICAN AMERICAN

- We provided the Vice President's office with a recommended invitation list for a State Department luncheon with South African Deputy President Thabo Mbeki. We mailed Mrs. Clinton's Africa tour booklets to national black assocation leaders.

WOMEN'S OUTREACH

- Met with United Silicon Survivors (USS), advocates representing women who are recovering from illnesses related to breast implants and explants. Our meeting was a follow-up to a meeting USS had with HHS's Women's Health Bureau; both meetings focused on USS's request that the Administration take more action to expose the risk of breast implants and related health problems.

cc: First Lady
Mrs. Gore
Erskine Bowles
John Podesta
Sylvia Mathews
Doug Sosnik
Craig Smith
Rahm Emanuel
Kitty Higgins
John Hilley
Bruce Reed
Micky Ibarra
Gene Sperling
Mike McCurry
Susan Liss
Goody Marshall

225291

THE WHITE HOUSE

WASHINGTON

'97 JUL 3 PM 10:18

July 3, 1997

MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: Mickey Ibarra MI

SUBJECT: Office of Intergovernmental Affairs Weekly Report -- June 30 - July 3, 1997

I. PRESIDENTIAL PRIORITIES

Balanced Budget/Tax Cut Proposal

- On the day the Administration's tax cut proposal was released, June 30, 1997, Intergovernmental Affairs made over thirty individual calls to elected officials to amplify your message. The following day, we organized two conference calls with Gene Sperling and Larry Summers to brief mayors and county officials on the tax cut proposal; more than forty elected officials participated in these briefings. Many participants agreed to either facilitate press events in their communities or to issue supportive statements as a result of our communication. Over 150 elected officials received talking points and our summary of the tax package by the end of the week. In addition, we mailed more detailed explanatory materials to several hundred elected officials. The U.S. Conference of Mayors (USCM) issued a strong request to its members (attached) for their assistance in moving forward many of your urban initiatives which are included in the reconciliation/tax bills.

- We organized two conference calls with mayors for the Vice President. The purpose of these calls was to highlight the components of the tax cut proposal that benefit cities; to reiterate the Administration's commitment to urban communities, and to generate regional press for your tax cut proposal. The unique feature of these calls was that we asked the mayors to have their city hall press corps join them during the call. This was very successful in garnering local press on Brownfields, Empowerment Zones/Enterprise Communities, and the Community Development Financial Institutions.

- We have also organized a press briefing with the Vice President, Secretary Rubin and seven local officials for Monday morning, July 7, 1997. In attendance will be six mayors and one county commissioner from communities which will strongly benefit from the proposals in your tax package. We expect to have extensive press coverage of this event.

- We have also spoken with eight governors and their key staff members to brief them on the tax plan and encourage their support.

Education

- We met with the DPC education staff and will increase our advocacy with both mayors and governors to gain commitments to adopt your new education testing initiative. Governor Thomas Carper (D-Delaware), Governor Roy Romer (D-Colorado), and Mayor Ed Rendell (D-Philadelphia) have committed their support. We will contact more governors and other key local elected officials' offices next week.

"One America" Race Initiative

- I participated in several talk radio programs to promote your initiative on race reconciliation.

II. INTERGOVERNMENTAL CONSTITUENCIES

County Officials

- We are preparing for the Annual Conference of the National Association of Counties (NACo), which will be held in Baltimore on July 11 - 15, 1997. The theme of the conference is, "Counties -- The Local Solution." Currently, Secretaries Babbitt, Cuomo, Slater, and Herman are scheduled to attend the NACo Conference.

- We are also working to establish a "One Stop Shop" Service Center at the NACo Conference as you requested. We have asked the federal departments and agencies to send representatives to the Baltimore meeting on Monday, July 14. We coordinated with Cabinet Affairs to speak with the chiefs of staff of the departments and agencies at their semi-monthly meeting and asked for their cooperation in this effort.

Municipal Officials

- The National League of Cities is issuing a report at an event at the National Press Club on Monday, July 7, 1997, which announces the continued improvement of the fiscal conditions and strength of local economies. For the fifth consecutive year, a growing percentage of cities (68 percent) said they are better able to meet their financial needs than they were a year ago, and more cities (55 percent) are also more optimistic about the future. Factors most often mentioned in helping shore up city finances were changes in the value of the local tax base and in the health of the local economy.

Indian Country

- We met with an interagency group convened by Dr. Trujillo of the Indian Health Service to mobilize to better serve Indian Country's health needs. Attached are some statistics that should inform you about those needs.

- Pursuant to your request on the Cherokee Nation issue, we joined with OPL, the Counsel's office, and Political Affairs to coordinate a conference call with Wilma Mankiller on Monday, June 30, 1997. As a result of this call, we agreed that we would reach out further to the Office of Tribal Justice at DOJ. We also contacted David Hayes, Counselor to Secretary Babbitt, in order to try to facilitate coordination between DOJ and the Interior Department.

  We believe the situation to be the following: after numerous attempts to bring the opposing factions to the table, it was proposed that the Tribal Council, which is badly fractioned, would establish a commission which would investigate allegations of misuse of power by Chief Byrd and his administration. There is a lawyer at the Tribal Council that is trusted by both sides, and he would direct this effort. The goals of the Tribal Council effort are: 1) to reinstate the judges that have been impeached, 2) to restore the tribal marshals, and 3) to re-open the Courthouse, which was closed by Chief Byrd and some security guards. The third goal is primary, because of its symbolism and the tense nature of this situation. We will continue to monitor the situation and report as appropriate.

III. OTHER ISSUES

Air Quality Standards

- As a follow-up to your decision and announcement of new National Ambient Air Quality Standards, we surveyed press activity by our constituents. Attached are several press releases from the bipartisan intergovernmental organizations and key state and local elected officials.

Electronic Commerce

- We worked closely with the "Big Seven" bipartisan intergovernmental organizations (National Governors' Association, National Conference of State Legislatures, National Association of Counties, U.S. Conference of Mayors, National League of Cities, Council of State Governments, and the International City/County Management Association) to address their concerns regarding the Electronic Commerce Report and the Internet Tax Freedom Act (S. 442). A conference call was conducted on Monday, June 30, 1997, by IGA staff with Big Seven representatives and DPC and Treasury staff to explain the Administration's support of no new Internet taxes. We also discussed the need to devise a system which will protect state and local tax bases while ensuring the development of new technologies to their maximum potential. Leaders of the bipartisan intergovernmental organizations were invited to participate in the East Room event on electronic commerce on Tuesday, July 1, 1997.

Oklahoma City

- We spoke with Oklahoma City Councilman Mark Schwartz, President of the National League of Cities, regarding his request for a White House ceremony in July with the co-directors of the Oklahoma City Memorial Foundation and the memorial design winners announced July 1, 1997. A scheduling request has been submitted for such an event. You spoke to Councilman Schwartz about his request in San Francisco following your speech to the Annual Meeting of the U.S. Conference of Mayors.

Presidential Requests

- San Francisco Mayor Willie Brown met with you June 23, 1997 in San Francisco prior to your speech to the Annual Meeting of the U.S. Conference of Mayors. A conference call involving IGA, HUD, and the Interior Department will be held next week to determine how best to address the Presidio housing issue which the Mayor discussed with you.

  Regarding Mayor Brown's request involving disaster assistance funding to complete the restoration of damage to City Hall due to the 1989 Loma Prieta Earthquake, FEMA Director James Lee Witt has been directly involved in this issue and has exercised all discretion possible. Further assistance is not available. (FEMA approved $104 million for an improvement project with a 75 percent Federal cost-share or $79 million.)

- Los Angeles Mayor Richard Riordan shared concerns with you June 23, 1997 in Los Angeles regarding the Los Angeles Neighborhood Initiative (LANI) and the COPS program. The Transportation Department is being consulted about LANI funding. The Mayor's concerns with the COPS program will be referred to the Justice Department for a response.

- Town Supervisor Richard Randazzo of Cornwall, New York, wrote you requesting your assistance with concerns involving two local veterans hospitals. You requested that IGA facilitate a response. The Correspondence office is sending a letter to Supervisor Randazzo indicating that we are looking into the matter with VA. I will work with Cabinet Affairs and ensure that the matter is treated seriously.

THE UNITED STATES CONFERENCE OF MAYORS

1620 EYE STREET, NORTHWEST
WASHINGTON, D.C. 20006
TELEPHONE (202) 293-7330
FAX (202) 293-2352

TO: The Mayor

FROM: J. Thomas Cochran, Executive Director Tom Cochran

DATE: July 2, 1997

SUBJECT: **President Signals Support for Mayors' Tax Bill Priorities**

* Calls, Letters on Tax/Reconciliation Bills Needed *

Your help is needed to secure the inclusion of Conference priorities in the reconciliation/tax cut bills moving to conference committee next week in Congress.

In anticipation of expected negotiations between House and Senate leaders after the July 4th Recess, Administration officials have just outlined the key tax provisions President Clinton wants in any final agreement on legislation implementing the balanced budget agreement. Several of these are Conference priorities which were affirmed during the Conference's Annual Meeting last week in San Francisco. Many of the proposals discussed in this memo have broad, bipartisan support in Congress but did not make it into the House- and Senate-passed bills.

Please call and/or FAX your Congressional delegation, conveying support for the following priority issues.

Initiatives for Urban Revitalization:

- **Brownfields Tax Incentive** – The Administration is calling for a $2 billion tax incentive program which allows businesses to "expense" the cost of cleaning up brownfields sites in qualified areas (i.e., EZs, ECs, EPA pilot grant areas, census tracts of above 20% poverty, and contiguous industrial areas. (President's proposal not included in either House or Senate bill.)

- **Empowerment Zones (EZs) and Enterprise Communities (ECs)** -- The Administration is calling for a second round of designations, whereby tax incentives would be provided to 20 new EZs and 80 new ECs. (No provisions in either bill.)

- **Community Development Financial Institutions Fund** -- The Administration calls for $100 million in tax credits to equity investors in community development banks to leverage private sector investment in distressed areas. (No provisions in either bill.)

J. Thomas Cochran
page two
July 2, 1997

Initiatives for Welfare-to-Work and Working Families:

- **Welfare-to-Work Program ($3 billion)** -- Our $3 billion program is not part of the tax bill, but it is included in the budget reconciliation bill which may move forward with the tax package. The Administration calls for a $3 billion targeted welfare-to-work program to support local areas where high welfare caseloads represent a significant challenge to these communities. (While there are provisions in both the House and Senate bills, the Conference strongly supports the House version that funds, through the employment and training systems, local agencies experienced in placing low-income and low-skilled persons in jobs, and in working with the private sector to create needed jobs. It directs all of the funds on the basis of need, rather than reserving 25 percent for projects on the basis of program success only. Secretary of Labor Alexis Herman supported this position in San Francisco, and we are supporting her in this effort.)

- **Welfare-to-Work Tax Credit** -- The Administration calls for a new 50% tax credit to be available on the first $10,000 in annual wages for two years of employment of certain long-term welfare recipients. (No provisions in either bill.)

- **Tax Credits for Working Families** -- The Administration calls for a $500-per-child tax credit for four million working families. This would allow lower income families who are eligible for the Earned Income Tax Credit (EITC) to also receive the benefits of this new child credit. (Both the House and Senate bills provide for the $500-per-child tax credit but EITC-eligible families lose the full benefits of this credit.)

The above items are proposals that President Clinton advocated on behalf of mayors and others to advance our priorities and secure the commitment of Congressional leaders to include these initiatives in the final tax/reconciliation bills implementing the balanced budget agreement. The President, Vice President, Secretary Andrew Cuomo and Secretary Alexis Herman stressed these points with us at our 65th Annual Conference and we reaffirmed our position before we left San Francisco.

With mayors pushing hard over the next few weeks on these priorities, coupled with the President's continuing support, we have the opportunity to persuade Congressional negotiators to include these initiatives in the final legislation. Please act today!

For further information, please contact me or Conference staff -- Larry Jones, Kevin McCarty, Ed Somers, Laura Waxman, Gene Lowe or Joan Crigger -- at 202/293-7330. In addition, please FAX to the Conference offices any correspondence you send to your Members on these matters (202/293-2352).

HEALTH CARE STATISTICS FOR THE TRIBES OF THE GREAT SIOUX NATION (Aberdeen Area)

	RATES SHOWN ARE HIGHER THAN THE NATIONAL AVERAGE
■ DEATHS FROM TUBERCULOSIS	1,300%
■ DEATHS FROM DIABETES	400%
■ SUDDEN INFANT DEATH SYNDROME	328%
■ POST NEONATAL MORTALITY RATE (28 days to under 1 year)	200%
■ DEATH FROM CERVICAL CANCER	251%
■ DEATHS FROM ALCOHOLISM	1,200%
■ DEATHS FROM SUICIDE	147%
■ LIFE EXPECTANCY	60 YEARS (vs. 74.9% for U.S. population)

Reference: 1993 Indian Health Service Report entitled "Regional Differences in Indian Health"

Key Facts About American Indian and Alaska Native Youth

Of the 1.43 million Indians living on or near reservations, nearly 500,000 (29 percent) are under the age of 15.

Indian infants die from sudden infant death syndrome (SIDS) at a rate 1.8 times the rate for U.S. All Races infants, 2.1 compared to 1.2.

13 percent of Indian deaths pertain to ages under 25 compared to 4 percent for U.S. All Races.

45 percent of Indian mothers having their first child are under age 20, compared to 24 percent for U.S. All Races mothers.

33 percent of the Indian population is younger than 15 years in contrast to 22 percent for the U.S. All Races population.

65 percent of Indians 25 years of age and older are high school graduates or higher, compared to 75.2 percent for the U.S. All Races population.

38 percent of Indians aged 6 to 11 years live below the poverty level, more than twice the number for the U.S. All Races age group (18 percent).

16 percent of Indian males and 13 percent of Indian females 16 years of age and older are unemployed, as compared to 6 percent for both groups in the U.S. All Races population.

61 percent of juvenile delinquents confined by the Federal Bureau of Prisons in 1994 were Indians.

The alcoholism death rate for Indians 15 to 24 years of age is over 17 times the comparable rate for U.S. All Races, i.e., 5.2 versus 0.3.

The accident death rate for Indians aged 5 to 14 years is nearly double the corresponding U.S. All Races rate, 17.1 to 9.3.

The suicide death rate for 15 to 24 year old Indians is 2.4 times the corresponding rate for U.S. All Races, 31.7 to 13.0.

Homicide is the second leading cause of death among Indians from 1–14 years of age and third for 15-24 year-olds.

More than 180 gangs have been identified in Indian country.

NEWS
The United States Conference of Mayors
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June 27, 1997

Washington, DC

Statement of Fort Wayne Mayor Paul Helmke, President, The United States Conference of Mayors on Recently Announced Clean Air Act Standards

At the 65th Annual Conference of Mayors, which we just concluded in San Francisco, mayors from across the country expressed their strong concern that Clean Air Act regulations to be proposed by EPA have not been sufficiently justified on scientific and cost bases. The mayors also expressed their strong concern that insufficient debate had occurred on implementation strategies for the proposed regulations and on the possible unintended negative environmental consequences of the proposed rule. For example, we are concerned that the effect of throwing hundreds of local governments into non-attainment status will only serve to continue urban sprawl and its negative environmental effects.

Mayors are extremely concerned that the Administration chose to ignore the spirit and intent of the unfunded mandates law and the President's executive orders that have directed the U.S. EPA to conduct cost studies on the impact of these proposed rules on state and local government budgets. We don't know what local taxpayers will be directed to pay out of their pockets for compliance with these new standards. Idaho Senator Dirk Kempthorne, author of our new unfunded mandate law, asked EPA Administrator Carol Browner during the Senate hearings on this subject in February to provide the actual cost of implementation to local governments. He reported to us in San Francisco, June 24th, at our Annual Meeting that this information has not been provided.

We are encouraged by statements by Administrator Browner that new scientific studies will be performed before non-attainment status is determined for particulate matter (PM). We are also pleased that EPA says that it will provide flexibility to local governments in their efforts to comply with these new standards. But, we have not been forwarded the details of their

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commitment to provide such flexibility and over the course of the last six months, we have been repeatedly told by EPA that implementation strategies cannot be discussed until after the rule is finalized.

Mayors are for clean air and for healthy children. But, many of these children come from families with inadequate health insurance, jobs, and educational opportunities. We, as mayors, must ensure that federal policies do not inadvertently close opportunities for the people who live within our cities.

If environmental regulations are to be adopted, then it is important to debate the other social and environmental effects of such implementation. As President of The United States Conference of Mayors, I encourage the Administration and Congress to have that debate in the coming months to ensure that efforts to help America's cities do not inadvertently have the opposite effect. The nation's mayors need to be a part of that debate, and we stand ready to do our part to protect the future of our children and our cities.

CONTACT: Mike Brown, (202) 861-6708, or David Gatton (202) 293-7330.

NCSL ENVIRONMENT REPORT

FEDERAL AFFAIRS UPDATE

June 26, 1997 Edition Number 5

PRESIDENT CLINTON AND U.S. EPA ADMINISTRATOR BROWNER STAND BY NEW AIR STANDARDS FOR OZONE AND PARTICULATE MATTER

President Clinton announced on June 25, his support for tightening air quality standards for ground level ozone ("smog") and ambient particulate matter ("soot") proposed by the U.S. Environmental Protection Agency (EPA) in November 1996. The decision to support the standards followed weeks of intense negotiations among White House, Cabinet and EPA officials. The negotiations resulted in an agreement to strengthen the standards but offer more time and flexibility for state compliance.

The final proposed ozone standard will change the current 0.12 ppm measured over one hour with one allowable exceedance to a stronger standards of 0.08 ppm measured over eight hours with four allowable exceedances. The proposed standard allowed only three exceedances. The final standard will create a new "transitional area" designation for areas that meet the current standard but do not meet the stricter standards. Transitional areas will be required to adhere to some but not all clean air requirements mandated in areas designated as "nonattainment" and extend the attainment deadline to the year 2004. This is intended to shield those areas from the deadlines and burdens associated with being officially designated "nonattainment areas."

The final particulate matter standard will regulate fine particles of 2.5 microns ($PM_{2.5}$) while maintaining the current regulations for particles of 10 microns (PM_{10}). The rule will give states five years to establish a monitoring system for fine particles. States will have an additional three years to develop and submit air quality plans that lay out how the state will meet the new standard. EPA said it would be several additional years before states would have to meet the new $PM_{2.5}$ standard.

Once the final rule is promulgated on July 18, 1997, Congress will have 60 "Congressional business" days to review and respond. Congressional opponents have spoken out about plans to prevent imposition of the new standards. There are several options to block the standards including amending the Clean Air Act; voiding the standards under the Congressional Review Act of 1996; or eliminating EPA funds earmarked for enforcing the new standards. Congressional proponents of the new standards lauded President Clinton and EPA Administrator Carol Browner for maintaining their decision to tighten the current standards.

Summary information, including fact sheets and press releases, regarding the final regulations can be found at the following Internet websites: "www.whitehouse.gov" and "www.epa.gov" The final regulation is expected to be published in the July 18 edition of the Federal Register.

NCSL staff contacts: Melinda Cross, Director NCSL Environment Committee (202)624 8195
Kate Fichter, Staff Assistant NCSL Environment Committee (202)624-8675

The New York Times
THURSDAY, JUNE 26, 1997

Clinton Move on Pollution Wins Praise in Northeast

As a result, Republican officials from across the Northeast lauded the Democratic President for standing firm on the new rules despite a bruising lobbying battle by industry.

Gov. George E. Pataki of New York, who had personally lobbied on behalf of the changes, was among the Republicans hailing Mr. Clinton's move.

"It means cleaner air, better health, and it's going to mean more jobs," Mr. Pataki said in an interview. "We have for too long been penalized by particulates and ozone being generated in other parts of the country. What we finally have is a system of fair standards."

The Governor said jobs would flow to New York once Midwestern industries had to invest equally in pollution reductions, eliminating an economic advantage that has prevailed for seven years.

OFFICE OF THE GOVERNOR
GEORGE V. VOINOVICH
COMMUNICATIONS OFFICE

FOR IMMEDIATE RELEASE
June 25, 1997

Voinovich Disappointed with President's Decision on Air Standards

The following is a statement by Governor George V. Voinovich in response to President Clinton's announcement that he is supporting U.S. EPA plans to revise the National Ambient Air Quality Standards for ozone and particulate matter. This statement, all or in part, may be directly attributed to the Governor.

"I am extremely disappointed that the President endorsed U.S. EPA's proposal. I had hoped that bipartisan opposition from elected officials at all levels of government across the country would cause the Clinton Administration to rethink this misguided proposal. As I told U.S. EPA Administrator Carol Browner, the science simply does not justify this proposal. Unfortunately, this decision had more to do with environmental politics than it did with clean air and public health. In the long-run, I am concerned today's decision will undermine public confidence in environmental programs.

"While some cosmetic changes were made to the original proposal, these regulations will impose vast new costs and burdens on American consumers even though U.S. EPA's own data indicate they will not deliver significant, measurable improvements in public health. The President's own Council of Economic Advisors estimated the benefits of the new ozone standard would be small while the costs would total $60 billion. The Public Utilities Commission of Ohio estimates the annual capital expenditures for Ohio utilities alone will exceed $760 million a year. These costs are estimated to boost Ohio utility rates more than 17 percent in some areas, with an average rate increase of 7 percent.

"We need to be clear, Ohio is making significant progress in cleaning our air. I am very proud that over the last 20 years, ozone has dropped by 25 percent overall and by as much as 50 percent in some urban areas. Columbus, Youngstown, Canton, Cleveland, Akron, Toledo and Dayton have been brought into attainment of federal standards, and the Cincinnati area is working to achieve attainment. We will continue to make progress under the existing standards. Ohio's commitment to clean air was further reaffirmed last week when we supported the Ozone Transport Assessment Group's regionwide approach for placing additional controls on ozone emissions.

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"As the governor of a large state with many urban areas, I am particularly concerned this rule will undo all the hard work and considerable expense to bring Ohio cities into attainment. Right now, only four counties are in nonattainment for ozone and two for particulate matter. Under this proposal, Ohio EPA predicts that at least half of Ohio's counties would fall into nonattainment and will be forced to adopt control measures to meet the new standard.

"Yesterday, the U.S. Conference of Mayors voted to express opposition to these standards because of the severe impact they will have on America's cities. This rule puts a wet blanket on economic development. Businesses will be forced to leave manufacturing centers for attainment areas where regulatory requirements are less burdensome.

"I am encouraged that there is widespread bipartisan opposition to these standards in Congress. I have spoken with the Congressional leadership about the need for passing legislation to block these rules, and bills already have been introduced. I will work closely with other governors, state and local officials, the Ohio Congressional Delegation and Congress in support of this legislation. Now that U.S. EPA has made its decision, we will have a national debate on this issue."

-30-

For more information, please contact Ted Hollingsworth (202) 624-5844.

New York Times - Op Ed
6-29-97

Rules Alone Won't Clean the Air

By Richard M. Daley

CHICAGO

This week's announcement that the Environmental Protection Agency will move forward with recommendations for significantly tighter limits on air pollution is both encouraging and disappointing.

I am encouraged by President Clinton's assurances that the new regulations will be flexible and sensible and not single out large metropolitan areas for punishment.

But unfortunately, the new E.P.A. regulations include no new ideas. Everyone wants less soot and smog — especially residents of large cities, where pollution is the biggest problem. But setting tougher pollution standards will not give us cleaner air.

Indeed, good standards, if carried out badly, can adversely affect public health and the environment. The major cause of smog and soot in cities is no longer industry, which has cleaned up its act, but automobile emissions. Yet the new clean air regulations could encourage suburban sprawl (and thus more cars), while hurting the development of industrial jobs in the cities.

That's what happened with the Government's Superfund program, which was supposed to speed the cleanup of polluted sites. But because of liability problems associated with the Superfund, contaminated property is almost certain to be abandoned. Industry won't invest in this property; neither will lenders.

This has happened thousands of times in cities across the country: jobs and capital are encouraged to flee to the suburbs and beyond. The result is more people in cars driving to and from work, and more air pollution.

The new clean air regulations could have an equally devastating effect. For instance, if a city is having trouble meeting the new standards, a moratorium could be placed on industrial development. Industry moves out, promoting more traffic and suburban sprawl.

Cities need real help, not more standards.

Cities need real programs to clean up the air. For example, Chicago has a new program, Brownfields, aimed at correcting the failures of the Superfund. The city is reclaiming abandoned, polluted inner-city industrial property. This reclamation cleans the environment and brings jobs into the city. Congress is considering several bills that would help cities rebuild their industrial sites.

But the Government must do a better job of planning how cleaner air will be achieved. For instance, highway construction still takes first priority, while urban mass transit receives less and less Federal money. It is left to the cities and states to give mass transit more money in order to meet the new clean air standards.

This week at a meeting of the United States Conference of Mayors, many mayors, from Susan Savage of Tulsa, Okla., to Dennis Archer of Detroit, expressed concerns about the new E.P.A. standards. Together under the leadership of Mayor Paul Helmke of Fort Wayne, Ind., the conference will work toward a more flexible approach to this problem.

But serious questions have been raised about whether the E.P.A. has the legal authority to be flexible. Congress should act to insure that the new standards will be carried out with the common sense that has been promised. This may require rewriting the Clean Air Act to make it fairer to cities by making it less reliant on punitive sanctions and enforcement.

Action must match rhetoric. Without a real Federal plan to meet the new standards, taxpayers won't be getting the cleaner air they deserve. □

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NCSL ENVIRONMENT REPORT

FEDERAL AFFAIRS UPDATE

June 26, 1997 Edition Number 5

PRESIDENT CLINTON AND U.S. EPA ADMINISTRATOR BROWNER STAND BY NEW AIR STANDARDS FOR OZONE AND PARTICULATE MATTER

President Clinton announced on June 25, his support for tightening air quality standards for ground level ozone ("smog") and ambient particulate matter ("soot") proposed by the U.S. Environmental Protection Agency (EPA) in November 1996. The decision to support the standards followed weeks of intense negotiations among White House, Cabinet and EPA officials. The negotiations resulted in an agreement to strengthen the standards but offer more time and flexibility for state compliance.

The final proposed ozone standard will change the current 0.12 ppm measured over one hour with one allowable exceedance to a stronger standards of 0.08 ppm measured over eight hours with four allowable exceedances. The proposed standard allowed only three exceedances. The final standard will create a new "transitional area" designation for areas that meet the current standard but do not meet the stricter standards. Transitional areas will be required to adhere to some but not all clean air requirements mandated in areas designated as "nonattainment" and extend the attainment deadline to the year 2004. This is intended to shield those areas from the deadlines and burdens associated with being officially designated "nonattainment areas."

The final particulate matter standard will regulate fine particles of 2.5 microns ($PM_{2.5}$) while maintaining the current regulations for particles of 10 microns (PM_{10}). The rule will give states five years to establish a monitoring system for fine particles. States will have an additional three years to develop and submit air quality plans that lay out how the state will meet the new standard. EPA said it would be several additional years before states would have to meet the new $PM_{2.5}$ standard.

Once the final rule is promulgated on July 18, 1997, Congress will have 60 "Congressional business" days to review and respond. Congressional opponents have spoken out about plans to prevent imposition of the new standards. There are several options to block the standards including amending the Clean Air Act; voiding the standards under the Congressional Review Act of 1996; or eliminating EPA funds earmarked for enforcing the new standards. Congressional proponents of the new standards lauded President Clinton and EPA Administrator Carol Browner for maintaining their decision to tighten the current standards.

Summary information, including fact sheets and press releases, regarding the final regulations can be found at the following Internet websites: "www.whitehouse.gov" and "www.epa.gov" The final regulation is expected to be published in the July 18 edition of the Federal Register.

NCSL staff contacts: Melinda Cross, Director NCSL Environment Committee (202)624 8195
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National Conference of State Legislatures
444 North Capitol Street, NW Suite 515
Washington, DC 20001

KW

The New York Times
THURSDAY, JUNE 26, 1997

Clinton Move on Pollution Wins Praise in Northeast

As a result, Republican officials from across the Northeast lauded the Democratic President for standing firm on the new rules despite a bruising lobbying battle by industry.

Gov. George E. Pataki of New York, who had personally lobbied on behalf of the changes, was among the Republicans hailing Mr. Clinton's move.

"It means cleaner air, better health, and it's going to mean more jobs," Mr. Pataki said in an interview. "We have for too long been penalized by particulates and ozone being generated in other parts of the country. What we finally have is a system of fair standards."

The Governor said jobs would flow to New York once Midwestern industries had to invest equally in pollution reductions, eliminating an economic advantage that has prevailed for seven years.

OFFICE OF THE GOVERNOR
GEORGE V. VOINOVICH
COMMUNICATIONS OFFICE

FOR IMMEDIATE RELEASE
June 25, 1997

Voinovich Disappointed with President's Decision on Air Standards

The following is a statement by Governor George V. Voinovich in response to President Clinton's announcement that he is supporting U.S. EPA plans to revise the National Ambient Air Quality Standards for ozone and particulate matter. This statement, all or in part, may be directly attributed to the Governor.

"I am extremely disappointed that the President endorsed U.S. EPA's proposal. I had hoped that bipartisan opposition from elected officials at all levels of government across the country would cause the Clinton Administration to rethink this misguided proposal. As I told U.S. EPA Administrator Carol Browner, the science simply does not justify this proposal. Unfortunately, this decision had more to do with environmental politics than it did with clean air and public health. In the long-run, I am concerned today's decision will undermine public confidence in environmental programs.

"While some cosmetic changes were made to the original proposal, these regulations will impose vast new costs and burdens on American consumers even though U.S. EPA's own data indicate they will not deliver significant, measurable improvements in public health. The President's own Council of Economic Advisors estimated the benefits of the new ozone standard would be small while the costs would total $60 billion. The Public Utilities Commission of Ohio estimates the annual capital expenditures for Ohio utilities alone will exceed $760 million a year. These costs are estimated to boost Ohio utility rates more than 17 percent in some areas, with an average rate increase of 7 percent.

"We need to be clear, Ohio is making significant progress in cleaning our air. I am very proud that over the last 20 years, ozone has dropped by 25 percent overall and by as much as 50 percent in some urban areas. Columbus, Youngstown, Canton, Cleveland, Akron, Toledo and Dayton have been brought into attainment of federal standards, and the Cincinnati area is working to achieve attainment. We will continue to make progress under the existing standards. Ohio's commitment to clean air was further reaffirmed last week when we supported the Ozone Transport Assessment Group's regionwide approach for placing additional controls on ozone emissions.

-more-

"As the governor of a large state with many urban areas, I am particularly concerned this rule will undo all the hard work and considerable expense to bring Ohio cities into attainment. Right now, only four counties are in nonattainment for ozone and two for particulate matter. Under this proposal, Ohio EPA predicts that at least half of Ohio's counties would fall into nonattainment and will be forced to adopt control measures to meet the new standard.

"Yesterday, the U.S. Conference of Mayors voted to express opposition to these standards because of the severe impact they will have on America's cities. This rule puts a wet blanket on economic development. Businesses will be forced to leave manufacturing centers for attainment areas where regulatory requirements are less burdensome.

"I am encouraged that there is widespread bipartisan opposition to these standards in Congress. I have spoken with the Congressional leadership about the need for passing legislation to block these rules, and bills already have been introduced. I will work closely with other governors, state and local officials, the Ohio Congressional Delegation and Congress in support of this legislation. Now that U.S. EPA has made its decision, we will have a national debate on this issue."

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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20502

July 2, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN H. GIBBONS

CC: ERSKINE BOWLES

SUBJECT: OSTP WEEKLY REPORT

CLIMATE DISRUPTION

At the Vice President's request, several Cabinet departments have prepared sectoral analyses on the impacts of climate change. The papers, delivered to me July 1, cover health, water resources, national parks, fisheries, coastal zones, forests, agriculture, and natural disasters. They provide helpful background analysis for developing our response to climate disruption.

I did an interview on your Administration's climate policies and actions with *Federal Technology Week* that appears in their July 3 edition (attached).

PROGRESS ON THE NEXT GENERATION INTERNET FRONT

Your Administration's *Implementation Plan* for the NGI was released on June 26. The plan, produced by the NGI agencies (DOD, DOE, NSF, NASA, NIH, DOC) in conjunction with academic and industry researchers, was a prerequisite to get the civilian authorization for the program from the House Science Committee. The NGI interagency team briefed the Committee on June 27 in anticipation of hearings in late July. Based on comments from staff, we have addressed the Committee's concerns about NGI, but we remain concerned about possible cuts in NGI appropriations slated for DOE and DARPA.

POSITIVE DEVELOPMENTS ON NUNN-LUGAR LEGISLATION

In an unusual move, the House reversed itself last week by revoting to defeat the Rohrbacher-Solomon amendment to the FY98 Defense Authorization Bill which would have blocked Nunn-Lugar funds for Russia if their Sunburn conventional ship missile system was sold to China. Representatives Dellums and Spratt played key roles turning the House around. The next task is to restore full funding for Nunn-Lugar in conference with the Senate, where Senators Lugar and Bingaman have lined up impressive bipartisan support.

AIDING U.S. FARMERS -- PLANT GENOME INITIATIVE

On July 1, I transmitted to Congress the interim report on how the Federal government should contribute to the development of genome maps for plants of agricultural significance, including corn. This evolving initiative will ultimately help to increase crop yield and improve production efficiency. U.S. corn exports represent 80 percent of the total world trade in corn, which is worth $24 billion in primary value to our economy. Senators Bond, Kerrey, and Harkin, among others, will use the report to help guide their FY98 appropriations decisions in this area.

FURTHER STUDY NEEDED ON OXYGENATED FUELS

On June 30, I released the *Interagency Assessment of Oxygenated Fuels*, prepared by the NSTC at EPA's request. The study focuses on MTBE, the most widely used of several motor vehicle fuel oxygenates, which were designed to increase the combustion efficiency of gasoline, thereby reducing CO emissions (mandated for use under the Clean Air Act Amendments of 1990). As a result of spills and leaks, MTBE has begun to show up in water, (e.g., it has completely contaminated the new public water system in Santa Monica) and has become a matter of public concern. The report considered four general topics -- impacts on air quality; water quality; fuel economy and engine performance issues; and potential health effects -- and found the data are sparse on the risks as well as the benefits of the fuel oxygenation program. In other words, the data are not encouraging but also not highly definitive. In response to this report, several federal agencies (including EPA, DOE, DOI U.S. Geological Survey, and the National Institute of Environmental Health Sciences) are developing plans to expand monitoring and research efforts.

UNITED STATES INNOVATION PARTNERSHIP

Bill Daley and I have established the United States Innovation Partnership in concert with the National Governors' Association (represented by Governor Glendening and Governor Rowland as co-chairs). USIP's mission is to achieve new economic growth, high quality jobs, and globally competitive businesses by leveraging U.S. science and technology leadership and resources through partnerships among states, the federal government, industry, and universities. Governor Rowland signed on the MOU that describes the partnership at the recent Connecticut Technology Dinner (June 24), and Governor Glendening will sign for the Democrat governors at an upcoming event. John Ahlen, whom you know, is spending a year at OSTP as a Fellow and is coordinating this work for the White House.

The McGraw-Hill Companies'

FEDERAL TECHNOLOGY REPORT

An Exclusive Biweekly on Federal Technology Policy

July 3, 1997

INSIDE THIS ISSUE

CLINTON SEEKS TECH SOLUTIONS TO CLIMATE CHANGE CHALLENGES

In the wake of President Clinton's directive to his Cabinet to develop a national climate change technology strategy, the White House plans this week to announce the appointment of a coordinator to guide the agencies' implementation of the effort, according to Office of Science and Technology Policy Director John Gibbons.

Sources said the position is expected to be filled by Todd Stern, who currently serves as White House staff secretary.

In an interview Tuesday, Gibbons said the coordinator would need to be able to oversee information dissemination activities as well as the climate science research agenda.

In a widely anticipated address to a United Nations meeting on the environment June 26, Clinton spoke of expanding the U.S. government's efforts to respond to climate change. "In order to reduce greenhouse gases and grow the economy, we must invest more in the technologies of the future," he said. "I am directing my Cabinet to work to develop them. Government, universities, business and labor

(Continued on page 7)

SANDIA SHOWS COMPUTER POWER IN BID FOR INDUSTRIAL PARTNERS

Now boasting the world's fastest computer, Sandia National Laboratories has begun to market its unparalleled simulation capabilities to attract new industrial and academic partners.

Sandia President C. Paul Robinson, who hosted a Washington exhibition of his lab's computer prowess last week, said teraflops computing will cause a "revolution in engineering," in which the old paradigm of building and testing prototypes will be replaced with virtual prototyping, and full-scale tests will be minimized.

"There's a new tool in town: tera-class computing," said Russ Skocypec, deputy to Sandia's vice president for information and pulsed power research and technology. But achieving the tool's full potential, he said, "is hard, and so we're looking for partners."

With the commissioning of its teraflops machine last month, Skocypec said, the frontier of computational speed has now jumped by as much as 5,000 times over the last few years.

Gerold Yonas, Sandia's vice president for information and pulsed power research and technology, said the teraflops by the AUI Board of Trustees this week. The appointment came after David Moncton, manager of Argonne National Laboratory's Advanced Photon Source, announced he had declined an offer by AUI to serve as Brookhaven's interim director until November, when DOE expects to name a new contractor. AUI President Lyle Schwartz has been serving as the interim director.

— As promised earlier, DOE posted on the World Wide Web its proposed contract for Brookhaven. The Internet address is http://www.ch.doe.gov/bulseb/.

—Bill Loveless

CLINTON SEEKS TECH SOLUTIONS TO CLIMATE CHANGE ... begins on page 1

must work together. All these efforts must be sustained over decades."

The administration's efforts are leading up to a December meeting in Kyoto, Japan, where international negotiators will decide on targets and timetables for reducing emissions of greenhouse gases such as carbon dioxide that are believed to contribute to climate change.

According to Gibbons, the initiative Clinton spoke of will build on ongoing climate change efforts within the White House and the agencies and on an initiative underway by the President's Committee of Advisors on Science and Technology to review the U.S. energy strategy and its effect on the environment.

The president's speech, Gibbons said, "helped set a faster, more intensive pace." According to Gibbons, "the president wants to have the Cabinet officers directly involved" in the effort to find technologies to reduce greenhouse gas emissions.

Nearly every federal agency will have a role, Gibbons said, although he noted that the Department of Energy would have the "single largest agency role." DOE has the national laboratories, he said, "and energy is the name of the game." The Department of Commerce, meanwhile, is responsible for the Partnership for a New Generation of Vehicles, which the White House said is an example of the kind of initiative Clinton has in mind. Under that program, the administration is working with the U.S. auto industry to develop vehicles that will triple the fuel economy of today's cars.

The goal of the newly announced effort will be "to accelerate advanced near-term technologies to combat climate change," according to a White House fact sheet. It will focus on three "strategic thrusts," including clean power generation; energy efficiency in the transportation, building and manufacturing sectors; and basic and advanced technological research."

Among the efforts to be undertaken, Gibbons said, are a Department of Agriculture and DOE initiative "looking at ways to use biomass materials and convert them to liquid fuels" and a buildings initiative aimed at improving the energy efficiency of structures.

Gibbons also spoke of alternative efforts that may be undertaken, including looking at ways to capture carbon dioxide produced by combustion and pump it into deep wells so that it does not enter the atmosphere. In addition, he said, there may be some work done on how to adapt and "learn to be resistive" to the effects of climate change. "Even if we work hard" to reduce emissions, Gibbons said, it is inevitable that there will be some change.

The president also will be looking to work with other countries, Gibbons said. During his trip to China last October, there was a little-noticed forum on sustainable development, including climate change. "The president will return to that issue this October" during a trip to Beijing, he said.

Finally, Gibbons said, "the president wants to help the American people come to better understand what the situation is that we face, what we can do about it in a productive way, and raise the total national awareness of the job we face." *—Lira Behrens*

FAST-COMPUTER CHALLENGES SPARK JOINT EFFORT BY NSF AND SANDIA

The National Science Foundation last week launched a $2-million collaborative program with Sandia National Laboratories to promote research in the fundamental sciences and engineering, on which complex computational analyses are based.

The program aims to address an engineering challenge brought about by the rapid increase in speed and computing posed by today's high-performance computers: some of the engineering fundamentals behind current computational analysis have not advanced sufficiently to take full advantage of this new capability.

Sandia is currently home to the world's fastest computer, with a speed in excess of 1 teraflop (trillion floating point operations per second). The new machine, built in a cooperative effort with Intel Corp., was formally dedicated last month.

While teraflops machines are excellent for simulating vast complex processes that would take many years to study through experimentation, the foundations of these simulations need to be verified, noted Tim Tong, program director in NSF's Chemical and Transport Systems Division. "Otherwise you just get wrong results faster," he said.

Tong expects that the program will fund six to 12 projects, to be competitively selected during FY-98. There are five general research categories: model fidelity, uncertainty quantification, experimental discovery and validation, high-performance computing and problem solving environments.

Focus areas for the first year are thermal transport, solid mechanics, design and operating of engineering systems (including design theory and modeling and

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July 3, 1997

MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: Craig Smith

SUBJECT: Weekly Political Update

ALABAMA

An Alabama Education Association poll, conducted June 17-26, surveyed 622 registered voters. Tested were Senator Richard Shelby (R), Governor Fob James (R) and Lieutenant Governor Don Siegelman (D). The results follow:

	Fav/Unfav	Party Vote In '98 Gov. Race	
Shelby	55%/13%	GOP candidate	40%
James	47%/32%	Dem candidate	38%
Siegelman	50%/12%	Ind candidate	6%
		Don't know	16%

ARIZONA

Contradictions have surfaced surrounding loans made to Governor Fife Symington (R) by his mother, deceased since 1990. Symington, who is on trial for fraud and extortion, has said he did not tell lenders about $2.2 million in loans from her because he did not have to pay her back. However, Thomas Washburne, an attorney for Symington's mother, testified that when Symington signed 29 promissory notes to his mother, "she expected to be repaid with interest." Symington attorney Rob Shull filed papers in court June 16, that noted Symington received loans from both his wife and mother, who both "explicitly told (him) that he didn't have to repay the debts." Shull added: "These loans were for use in his political campaign." But according to court documents, a rider attached to two promissory notes pledged that "under no circumstances will any portion of this loan at any time ever be used for political purposes." The loans were not repaid, and the Governor's mother signed the notes over to the Governor's wife, who forgave them. Symington attorneys now have to explain why he didn't report the debts on statements which he may have used to "deceive lenders."

CALIFORNIA

A new Field Poll shows that Californians feel better about the quality of life in their state than they did six years ago. Although the sentiment is improving, the number of people who see the state in a decline still outnumber those that see an improvement by a 2-1 margin.

A recent look at the Senate race shows that Senator Boxer (D) is the favorite. A recently published Godbe Research poll, conducted 5/17-21, surveyed 609 likely voters; margin of error 3-5% (release, 6/26). Democrats: Senator Barbara Boxer. Republicans: Treasurer Matt Fong, San

Diego, Mayor Susan Golding and businessman Darrell Issa.

	Open Primary					
	All	Dem	GOP	Other	Men	Wom
Boxer	38%	58%	10%	56	33%	42%
Fong	14%	8%	22%	15%	20%	10%
Golding	12%	5%	24%	8%	11%	14%
Issa	4%	2%	6%	2%	4%	3%

General Election Matchups

Boxer	42%	Boxer	43%
Fong	30%	Golding	29%
Boxer	44%		
Issa	24%		

A KRC Research poll, conducted 6/14-18, surveyed 800 adults; +/-3.5% (release, 6/26).

Boxer Re-Election

	All	GOP	Dem	Men	Women
Boxer	41%	9%	70%	37%	45%
Oppon	33%	71%	8%	37%	29%

Direction of the Country

	All	Gop	Dem	Men	Women
Right	38%	32%	45%	43%	33%
Wrong	50%	56%	45%	43%	57%

Boxer raised more than $1.5 million at the fund-raisers that the President attended in San Francisco and Los Angeles on June 24.

The owner of the San Diego Chargers, Alex Spanos, is supporting two rival candidates for the Republican nomination for the Senate. Spanos endorsed the campaign of San Diego Mayor Susan Golding (R) and has also accepted a position as co-chairman of a recent fund-raising dinner for the Senate campaign of State Treasurer Matt Fong (R). Spanos has also contributed several thousand dollars to Fong's campaign. In a similar situation Republican Representative Brian Bilbray is endorsing both Mayor Golding (R) and San Diego businessman Darrell Issa (R).

According to an INS and Oversight committee June 25 release, the INS has spent more than $150,000 probing alleged voter fraud in the November '96 election of Representative Loretta Sanchez (D) over former Representative Bob Dornan (R). "The cost and more than 4,000 hours of investigative work finding out how many noncitizens may have voted. . .is incomplete, partly because of lost paper records and outdated information on the agency's computers." Meanwhile, Sanchez toured Rhode Island as a guest of Representative Robert Weygand (D) at the end of June to "promote empowerment of the state's Hispanic community."

COLORADO

Governor Roy Romer intends to take a break from running for public office so that he can finish his term as Governor to the best of his ability and fulfill his duties as the DNC chair. Many continue to say that when his final term as Governor ends in 1998, he will become a potential Vice Presidential running mate for Al Gore. Some suggest that he will join the Cabinet if Gore is elected president in 2000. Several insiders have also expressed their belief that Romer will run for the US Senate in 2002.

Senator Wayne Allard (R) once again urged Representative Scott McInnis (R) to stay out of the 98' Senate race just one day after Governor Roy Romer (D) announced he would not run for the seat held by Senator Ben Nighthorse Campbell (R). Senator Wayne Allard declared "he has not spoken to Scott about this recently, but I have made my support for Senator Campbell known and believe it would send a terrible message to other Democrats who are considering changing parties."

On June 30 at a fund-raising luncheon, Lieutenant Governor Gail Schoettler (D), who is a candidate in the Denver gubernatorial race to replace Governor Romer, said that "while Republicans may have the edge in numbers, she is banking on a grass-roots campaign addressing education, growth management and fiscal responsibility" in order to elect a Democrat to the Governor's office.

CONNECTICUT

Unsuccessful in his attempt for governor four years ago, 1994 nominee Bill Curry launched his 2nd bid for the office this week. Representative Barbara Kennelly (D-01) is still considering entering the race. Ritter has hinted that he would drop out of the running if Kennelly, who appears to be the overall favorite, did, in fact, run. As of July 4, the remaining Democratic candidates are: Speaker Tom Ritter, Representative Barbara Kennelly, Bill Curry, Mayor Joe Ganim, John Nussbaum and Mayor John DeStephano.

FLORIDA

Secretary of State Sandra Mortham (R) announced, on July 1, that she will run for reelection in 1998, instead of challenging Jeb Bush the Republican gubernatorial primary. Mortham called Bush unbeatable: "I do not believe there is anyone who can win the primary other than Jeb Bush." When asked if she would like to be Bush's running mate, Mortham said: "At this point, I have no reason to believe that I'm doing anything except running for Secretary of State." She said she hopes that senate president Toni Jennings, who has been actively discussing a challenge to Bush, will run for a position in the state cabinet instead. According to a recent private poll taken for the Associated Industries of Florida, neither woman cracked single digits against Bush's roughly 70% support among Republicans.

GEORGIA

Michael Coles (D), former CEO of the Great Cookie Company, who ran against Speaker Newt Gingrich (R-06) last fall, will become State Chair of the Georgia Democratic Party. Governor Zell Miller (D) asked the state committee to name Coles as chair when it meets, on July 12. He replaces John Blackmon, who is stepping down. Although the committee has the final say, it always follows the Governor's recommendation.

In a clear attempt to ward off would-be challengers to Senator Paul Coverdell (R), the NRSC released figures this week showing Coverdell with a sizeable "war chest" for his reelection. Coverdell has more than $1.75 million in his bank, an increase of more than $500,000 from the close of 1996. There are no announced Democratic candidates, but Secretary of State Lewis

Massey (D), who raised nearly $1 million to run for his office in 1996, will decide in the next month.

ILLINOIS

On a recent trip to Washington, D.C., national Republican leaders made every effort to convince Governor Jim Edgar (R) that he is "their best hope" at defeating Senator Carol Moseley-Braun (D). Senate Majority Leader Trent Lott (R) admitted that "he used every good line he had on {Edgar}," yet he "gave no further clues about his plans. . . reiterating previous statements that he would announce his decision" by the end of the summer. Edgar described his talk with Lott as the "most in depth discussion we've been able to have" on the race. The only announced Republican to date is state Senator Peter Fitzgerald. Other possibilities include Secretary of State George Ryan, Lieutenant Governor Bob Kustra, Illinois Republican Chair Harold Smith, '96 state Senate nominee Al Salvi, state Representative Kay Wojcik, and former state Representative Susan Catania. Former Comptroller Michael Bakalis (D) is cited as a potential primary challenger to Moseley-Braun.

Senator Carol Moseley-Braun's (D) campaign finance disclosure statements released June 30, show her successfully retiring her 92' campaign debt but holding a "rather modest" bank balance for her reelection bid. Campaign Treasurer Billie Paige anticipates reporting a balance of $200,000, including proceeds from a fundraiser attended by President Clinton last week.

The Chicago Sun-Times reports that Chicago Mayor Richard Daley's (D) support for Moseley-Braun will be "limited" according to some Democrats. Daley will give Moseley-Braun an "all out" endorsement and make the maximum contribution from him and his wife, but will offer "no real help" with fundraising.

According to a poll published last week in the Chicago Tribune, nearly one-half of the respondents indicated that they wanted a new senator while only a third expressed a desire to retain Senator Moseley-Braun (D). The Senator has not been deterred by poll results and continues to maintain hopes that she would prevail in the Democratic primary if challenged. Madison County Republican Chair Ed Ragsdale claims "he's not surprised at the poll results. She's basically done a pretty terrible job." Many, including Southern Illinois University professor John Jackson, believe that "If Governor Edgar gets in the race, (she) immediately becomes the underdog." Insiders, however, commented that former Comptroller Michael Bakalis (D) failed "to generate any enthusiasm" in "attacking. . . her in a speech to the state Democratic party earlier this year."

Republican Day at the Illinois State Fair in Springfield is August 13 and some believe that Governor Jim Edgar will announce his intentions around that time.

INDIANA

Attorney John Price (R) formally announced his bid for the GOP nod to replace Sen. Dan Coats (R), who is retiring. Price joins former Reagan aide Peter Rustoven (D) and former Governor

Evan Bayh (D) in the race. Price, who is best known for taking on provocative, right-wing cases, has run for Congress twice, losing both times.

IOWA

The Vice President and Minnesota Senator Paul Wellstone (D) both attended various events in Iowa over the weekend. Their visits are being seen as the beginnings of their 2000 presidential bids. The Vice President got very positive reviews from Iowa Democratic activists and political reporters. A clip is attached.

While in Iowa, Sen. Wellstone criticized the Democratic party for walking away from issues such as jobs and education. He also said that your Administration's shift to the center has "robbed the party of its soul," and that you and the Vice President have left the party standing for very little. Wellstone specifically criticized you for negotiating a budget deal with Congress, which he said did little except protect the wealthy.

Steve Forbes was in Iowa again this week tuning up for another presidential run in 2000.

MASSACHUSETTS

Sheila Rauch Kennedy called on her ex-husband, Representative Joe Kennedy, on June 29, to be a leader in a growing movement that wants the Catholic church to reconsider its views on divorce, remarriage, and annulment. Rauch Kennedy said she supports her ex-husband's bid for governor, despite the accusations in her book that he verbally bullied her when he was seeking an annulment.

Former Boston Mayor Ray Flynn (D) has now decided he will work as a senior policy advisor for a national consulting firm, but left open the possibility of running for governor in 1998. Flynn's search for a new job had been somewhat public and embarrassing. State Department rules prohibit Flynn from announcing whom he is working for, but he said: "I will tell you I plan to accept a position as a senior policy consultant in the health care field."

MICHIGAN

A *Detroit News* poll, conducted June 27-29, surveyed 394 adults testing Gov. John Engler (R), former Michigan Senator Don Riegle (D), former state Sen. Doug Ross (D), and businessman Larry Owen (D). The results follow:

General Election Matchups

Engler 54%	Engler 53%	Engler 55%
Riegle 37%	Ross 30%	Owen 27%

Engler Re-Elect

Re-elect Engler	49%
New person	41%
Don't know	11%

Engler Job	App/Dis
Overall	64%/33%
Economy	71% /22%
Welfare ref.	63%/29%
Taxes	59%/36%
Crime	53% /36%
Education	48% /44%
Roads/Trans.	25% /70%

Engler's announcement that he will seek a third term has Rep. Bart Stupak (D) considering a gubernatorial bid. Stupak is being heavily recruited by some state party leaders who would like to expand the Democratic field. Stupak, however, stated that the chances of him running are remote.

The National Labor Relations Board said Tuesday that it will seek a Federal court order to force the *Detroit News*, *Detroit Free Press*, *Detroit Newspapers Inc.* to return all striking employees to their jobs. William Schaub, regional director for the NLRB in Detroit, is expected to request the injunction in U.S. District Court in Detroit later this week or early next week. The move was prompted by Administrative Law Judge Thomas Kilks' ruling that blamed the strike--which began on July 13, 1995-- on the newspapers.

MINNESOTA

Sen. Paul Wellstone (D) toured Minneapolis Tuesday in an effort to raise public consciousness about children and poverty issues. The Minneapolis stop follows his first "poverty tour" to Mississippi. The tour through Minnesota's poorest legislative district, where 43 percent of the residents fall below the poverty line, focused less on inner-city afflictions than on possible solutions. He also is planning to tour Chicago, Kentucky, Baltimore or New York City, and Los Angeles.

MONTANA

On June 28, the Montana Democrats elected Bob Ream as its new chair. Ream won easily with 55% of the vote. For six years, the Democratic party has been in serious decline in Montana, and Ream predicted "the status quo" Montana Democrats "will not hold." Attorney General Joe Mazurek (D) said "a sure way to gain a foothold" on power "is to recover the governor's seat," which has not been held by a Democrat since 1988.

NEBRASKA

The Nebraska Democratic Party is holding a Republican-switching party for 1990 gubernatorial candidate Alan Jacobson next week. Jacobson, who is a former board member of the Christian Coalition, is switching from Republican to Democrat, claiming dissatisfaction with the Republican party.

Senator Bob Kerry is cracking down on illegal immigrants. Kerry stated "it's time for the meatpacking industry to take more responsibility for the large number of illegal immigrants finding employment at plants in Nebraska." He also stated that the Immigration and Naturalization Service needs more agents in the states and that agents should be stationed at meatpacking plants to check the identities of workers.

NEW HAMPSHIRE

Under the header, "The Early Word From New Hampshire Is That Nobody Cares About Politics," the *Baltimore Sun's,* Germond and Witcover write, "it is hard to find anyone" in New Hampshire, "other than a handful of activists, with any interest in politics, and it is easy to find voters who are tuning out." Retiree John Bridges said, "It's all one investigation after another, one scandal after another, just a lot of noise." One reason for the little interest in politics may be that New Hampshire has few serious concerns these days. New Hampshire's economy is booming, and unemployment in the state is far below even the low national level. Democratic fundraising investigations and President Clinton's past are not taken too seriously in the Granite State. A retired Merrimack teacher noted, "Nobody cares about what happened back in Arkansas 10 years ago. It's just politics."

NEW JERSEY

Woodbridge Mayor and state Senator James McGreevey (D) pushed his plan for "Lifetime Learning" at what was billed as a town meeting on education with Vice President Al Gore on June 30 in Jersey City. The two spelled out their plans for college tuition tax incentives, expanded education for children and government assistance for school construction. Before the appearance, the Vice President joined 200 prominent Democrats at a fundraising luncheon for McGreevey.

NEW MEXICO

Reese Fullerton (D), an attorney from Santa Fe, has declared his intention to run for governor. Fullerton ran Senator Jeff Bingaman's (D) 1982 campaign, which was Bingaman's first run for Senate. State Representative Gary King (D) is contemplating entering the gubernatorial race. King is the son of former Governor Bruce King (D), who was defeated by Governor Gary Johnson (R). Declared gubernatorial candidates are former Lt. Governor Casey Luna (D), former Governor Jerry Apodaca (D), former State Appeals Court Judge Ben Chavez (D), Corporation Commissioner Gloria Tristani (D), Albuquerque Mayor Martin Chavez (D), and State Auditor Robert Vigil (D).

Of the declared candidates, Mayor Martin Chavez (D) appears to be the favorite to win the gubernatorial primary. However, there is speculation that Chavez's supposed marital problems and an alleged 911 call from Chavez's wife may be released if it serves a political advantage to the holder of the tapes.

Former Lt. Governor Carol Cloer (D) announced her candidacy for the 3rd Congressional District on July 1. Eric Serna (D) is considering challenging Representative Bill Redmond (R-3). Serna lost to Redmond in a special election in May 1997. Other potential challengers to Redmond (R) are Gallup Mayor George Galanis (D), Santa Fe County Commissioner Jorge Gonzales (D), former State Supreme Court Justice Tony Scarborough (D), State Senator Roman Maes (D) and Sante Fe Mayor Debbie Jaramillo (D).

NEW YORK

After months of wavering, Democratic state Comptroller Carl McCall has all but decided to challenge Republican Governor George Pataki, according to his associates. Democratic insiders say that McCall will officially announce his gubernatorial candidacy by the middle of August. McCall's inclination to run is the latest sign that there might be some competition among

Democrats for the nomination. NYC Council Speaker Peter Vallone (D) has begun telling associates that he is definitely running for governor. Former NY Democratic chair John Marino said, "Peter grabbed me at City Hall and said, 'I've been talking to people and I'm running.'"

Within his own party Senator Al D'Amato (R) may be challenged from the left by lame-duck Lieutenant Governor Betsy McCaughey Ross. D'Amato will also likely be challenged from the right by former GOP comptroller candidate, Herbert London, who appears to be New York Conservative Party boss Michael Long's choice for the Conservative Party slot. Long stated, "It looks like Al's going to have one coming at him from the left and one from the right." Long said he was basing his predictions on reports he is receiving from operatives in both political parties. Referring to the would-be challengers, Long added, "While I don't think either one is going to be successful, that may not be the point."

Senator Alfonse D'Amato has again proven himself capable of giving two dramatically different readings of the same material. In 1989 D'Amato joined Senator Jesse Helms (R-NC) in bashing the National Endowment for the Arts (NEA). On the floor of the Senate, D'Amato ripped up a catalogue showing the work of NEA-supported artist Andres Serrano. Attacking a Serrano photograph that showed Christ on a crucifix submerged in urine, D'Amato said that Federal money for "such trash" was "shocking, abhorrent and completely undeserving." On July 1, 1997, on the steps of the Met, D'Amato was foursquare in favor of Federal money for the arts, especially as that money flows into his home state, which happens to be the largest recipient of NEA grants. D'Amato said the health and vitality of the arts community must be nurtured, and strengthened. D'Amato is under fire from the American Conservative Union (ACU) for his support of the NEA. ACU's David Keene says D'Amato, "had it right the first time," and that, "Senator D'Amato's complete flip-flop on this matter is totally unacceptable."

Mayor Rudy Giuliani's (R) campaign has begun airing advertisements claiming credit for free subway and bus transfers, even though the changes were planned before he took office. The instantly controversial ads also revive Giuliani's 1993 slogan: "One city, one standard," which critics note sound like a simultaneous public-service campaign in which the mayor touts "one city, one fare." The three Democratic challengers, Manhattan Borough President Ruth Messinger, NYC Council member Sal Albanese and Reverend Al Sharpton, blasted the mayor's claim of credit as a lie.

OHIO

George Voinovich (R), who is running for the Senate next year, unveiled a plan Tuesday to overhaul the way Ohio funds public schools by increasing taxes on purchases, real estate, and cigarettes, while restricting judicial review of the proposal. In an attempt to soften the tax bite, the governor's plan also includes modest property tax breaks for homeowners, a reduction in tax breaks for businesses, and a new tax write-off for parents with children in private schools. The biggest part of the package would increase the state sales tax from five percent to six percent. Reaction was mixed.

Governor Voinovich's former chief of staff Paul Mifsud, will plead innocent to five felony and three misdemeanor charges. Mifsud was indicted last month on charges that include tampering with public documents, tampering with evidence, violating state ethics laws, and interfering with a public official.

OKLAHOMA

The Motion Picture Association of America has scheduled a July 1 fundraiser for Senate Majority Whip Don Nickles (R) at the Beverly Hills Hotel. Charlton Heston will host the event. Nickles is expected to announce his bid for a fourth term, but will put the money raised from the event into the Republican Majority Fund rather than his own campaign. Nickles will also help raise funds for the California GOP.

The state Ethics Commission voted 4-1 on June 27 to file and prosecute a civil complaint against Governor Frank Keating (R) for using state cars and the state airplane on 32 GOP fundraising trips in '95 and '96. Each of the violations is considered "non-willfull" and the maximum penalty on each is $15,000. Keating said, "Four of these individuals think that they acted righteously. They did not, they were irresponsible, they were vindictive and they acted illegally." Last week, Keating filed a lawsuit challenging the rule he is now formally accused of violating. Possible challengers: State Representative Laura Boyd (D), Attorney General Drew Edmondson (D), former Governor David Walters (D), and horse breeder Hoppy Heidelberg, who may run as a Republican or Independent.

Representative Tom Coburn (R) said June 27 that frustrations over the GOP leadership have caused him to give "serious thought" to leaving the GOP. He would become an Independent.

NORTH DAKOTA

No serious challengers have emerged for Senator Byron Dorgan's (D) seat. Governor Ed Shafer's (R) "name keeps coming up, but he repeatedly said he won't run in the middle of his second term." State GOP chair and '94 contender Gary Porter's name is "the only other one floating around" for Senate, and he is also considered a potential House candidate. Other potential House GOPers: '96 candidate and newly appointed State Economic Development Director Kevin Cramer (R) and State House Majority Leader John Dorso (R).

RHODE ISLAND

A Brown University poll of 407 registered voters conducted June 21-23, tested the job performance ratings of Governor Lincoln Almond (R) , Senate Majority Leader Paul Kelly (D), who is considering a run for governor, Senator John Chafee (R), Senator Jack Reed (D), Representative Patrick Kennedy (D-01) and Representative Robert Weygand (D-02).

Job Performance Ratings

	Chafee	Reed	Kennedy	Weygand	Almond	Kelly
Excellent	12%	11%	10%	4%	7%	2%
Good	38%	36%	37%	31%	33%	20%

Fair	26%	23%	29%	24%	35%	26%
Poor	9%	5%	15%	4%	20%	10%
Undecided	15%	25%	9%	37%	5%	42%

SOUTH CAROLINA

On June 30, State House Minority Leader Jim Hodges entered the race for governor. Bill Holler (D), who garnered 4% of the Democratic vote in the 1994 primary. has also announced he will run in 1998. Another possible contender is Republican Lexington County Sheriff James Metts, who has been talking about switching parties and running as a Democrat, but he has yet to make a decision. Some experts do not give Hodges much of a chance, but Democrats are buoyed by a survey taken for them by Garin, Hart & Yang. The survey of 606 voters conducted May 21-22 shows 30% would definitely vote for Governor David Beasley (R), but 54% indicated they would either consider someone else or definitely vote against Beasley. While dodging questions about how much he had raised, Hodges stated he could raise sufficient cash to be competitive with Beasley's $1.3 million.

SOUTH DAKOTA

State Senate Minority Leader Bernie Hunhoff (D) is planning to announce his gubernatorial candidacy on July 31. It is speculated that Representative At-Large John Thune (R) is considering running for the governor's seat. Another potential gubernatorial candidate is retired salesman Ross Rhineheart (D).

TEXAS

Texas pitching legend Nolan Ryan officially bypassed a 1998 race for Agriculture Commissioner, declaring that he would not pursue any race which might hinder his lucrative contracts with Dairy Queen and Advil. Earlier this week, FCC Attorney Mark Berlin said Texas television would have to give opponents equal air time. An attorney for the National Association of Broadcasters said this is considered political use for Ryan. The Texas Ethics Commission is yet to issue a decision on whether such ads would constitute an illegal corporate contribution to Ryan's campaign.

Ryan was sought out by the farm bureau as a possible candidate for Agriculture Commissioner, the seat now held by Rick Perry (R)--who is seeking the Republican nomination for lieutenant governor. He did not rule out a run for political office in the future. A poll conducted last winter in the Dallas-Ft. Worth and Houston areas showed Ryan with an 80% favorable rating, and a 75% favorable statewide rating.

AP Political Reporter Mark Glover suggested that, among the faces emerging on the Republican side, Gov. George Bush (R) is "somebody who's going to be out here campaigning early and often." Glover also suggested that "former Republican national chair Rich Bond has been in the state a couple of times to kind of nose around and see where things are, and he works for Bush." Glover's caucus predictions: "Early odds are Al Gore and George Bush."

As reported in the *Dallas Morning News*, Land Commissioner Garry Mauro hired Ruben Johnson--founder and former chair of United Austin Bank who was convicted of bank fraud in 1989 for taking kickbacks--as director of special projects for a new $52 million veterans' nursing home program, but he will not be allowed to handle any financial matters. Johnson is on probation after serving most of an eight-year sentence in federal prison. According to the Texas Ethics Commission, Johnson contributed $5,000 and his Austin bank lent $228,000 to Mauro's 1982 campaign for land commissioner. Johnson was convicted in 1989 of accepting kickbacks from building contractors and, sentenced to eight years in prison and ordered to pay $4.5 million in restitution. Mauro defended his action saying that he hired Johnson for his expertise to help direct a veteran's program because he believes in giving second chances.

In the race for Land Commissioner, State Senator Hugo Berlanga (D-Corpus Christi) is seriously considering running for this post if current Land Commissioner Garry Mauro (D) decides to run for Governor. Berlanga was named by *Texas Monthly* Magazine as one of the most effective lawmakers.

UTAH

The Salt Lake Immigration and Naturalization Service (INS) has cut its office hours and changed all its phone numbers and is keeping them secret in an effort to get some work done. Meryl Rogers, agent in charge of the local INS office, said that since a new immigration law passed by Congress last year went into effect April 1, he and his 10 agents have seen a 500% increase in the number of people applying for citizenship. Rogers stated that the drastic measures are until "the work load gets under control." Under the new law, illegal immigrants face a September 30 deadline to apply for legal status. If they don't apply by then and leave the country, they could be barred from reentering the United States for three to ten years.

VIRGINIA

Governor George Allen (R) said, on June 30th, that he would not convene a special session of the General Assembly this year to redraw the congressional district of Representative Bobby Scott (D). The state was ordered, on June 26, to draw a new map when the Supreme Court upheld findings that the state's only majority-African American CD was racially gerrymandered. Despite urging from Scott and other congressmen to move quickly, Allen said he saw no reason to convene the full legislature before its next scheduled meeting in January 1998. In the meantime, Allen said committees should begin work on drafting a new plan.

Political appointees to Allen were threatened with their jobs if they made contributions to one, but not all of the Republican candidates for attorney general. On June 30th, an agency head quit in protest, branding it an illegal policy of forced contributions. The Governor's Chief of Staff Jay Timmons told the Cabinet that to preserve Allen's neutrality in the GOP attorney general's contest, patronage employees considering writing checks to any of the candidates with debts from the June 10 primary were expected to contribute in equal amounts to all four, or to forgo donations altogether. However, objecting to the dictate, Bruce C. Morris resigned as the director of the Department of Criminal Justice Services. On July 1, Allen defended his Administration's policy, as reasonable.

Former Attorney General James Gilmore (R) aired a new television advertisement that shows Gilmore ripping up a property tax bill: "When we elect Jim Gilmore governor ... [we will] abolish property tax on our cars!" The ad is being aired across Virginia, except in the expensive Washington media market. Gilmore's opponent, Lieutenant Governor Don Beyer (D), scoffed at the ad and claimed it is factually incorrect. Beyer's campaign estimates that Gilmore's plan would create a $1.5 billion to $3 billion hole in the state budget. Beyer has countered by promoting targeted tax cuts on non-prescription drugs and eliminating the corporate income tax.

WASHINGTON

GOP Chair Dale Foreman has decided to remain state party chairman rather than challenge Representative Linda Smith (R) in a primary for Senator Patty Murray's (D) seat.

Representative George Nethercutt (R) is strongly considering a run for Murray's Senate seat. Assuming Representative Jennifer Dunn (R) wins her race for vice chairwoman of the House Republican Caucus, many establishment Republicans will turn to Nethercutt as their major Senate hope. Nethercutt has had discussions regarding a campaign with Senator Slade Gorton (R) and GOP strategist Ed Rollins.

WISCONSIN

The *Wall Street Journal* editorialized on the national debt retirement proposal of Rep. Mark Neumann (R), which is supported by Speaker Gingrich: "Democrats who want to retake Congress have found the issue they've been looking for. If Republicans embrace this idea, Dick Gephardt will be Speaker in no time. Both the economics and politics of this proposal make it nutty even by Beltway standards."

Lydia Spottswood (D) announced Tuesday that she has formed a campaign committee for the congressional seat held by Rep. Mark Neumann (R), who is challenging Sen. Russ Feingold. Spottswood came within 4,500 votes of beating Neumann last November.

LABOR

The AFL-CIO launched another series of radio and TV ads in response to last week's House vote on the GOP tax plan. The ads, which are designed to remind Congress to put working families first, will run in sixteen Republican and seven Democratic congressional districts. The Democratic representatives targeted are Bob Clement (TN), Gary Condit (CA), Calvin Dooley (CA), Virgil Goode, Jr. (VA), Chris John (LA), Owen Pickett (VA), and Gene Taylor (MS).

cc: The First Lady
Mrs. Gore
Erskine Bowles
Sylvia Matthews
John Podesta

Doug Sosnik
Maria Echaveste
Don Baer
Rahm Emmanuel
Bruce Reed
Mike McCurry
John Hilley
Mickey Ibarra

RM

THE WHITE HOUSE

WASHINGTON

July 4, 1997

7-7-97

File

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XXX

MR. PRESIDENT:

Attached are for your review are:

1) a detailed decision memo from Gene Sperling. He asks for your guidance on three related issues related to long-term entitlement reform: 1) whether to focus our efforts on Medicare or Social Security; 2) how do we shape the Medicare Commission that we will probably not be able to remove from the House and Senate reconciliation bills; and 3) should we support the creation of a Social Security Commission now, or wait.

2) an informational memo from Chris Jennings that explains why long-term Medicare reform is difficult.

Gene would like you to act upon the decision memo prior to your departure if possible -- the budget team will likely have to broach some of these issues, particularly the structure of the Medicare commission, with the Congressional leadership early next week.

Phil Caplan Phil

THE WHITE HOUSE

WASHINGTON

'97 JUL 4 AM11:55

July 4, 1997

MEMORANDUM TO THE PRESIDENT

FROM: Gene Sperling

SUBJECT: Memos on a Medicare Commission and Entitlement Reform

Attached are two memos. The first is a decision memo on how to proceed in conference on a Medicare or a possible Social Security commission. The second is a memo from Chris Jennings on the challenges of passing long-term Medicare solutions in the immediate future. In our internal meetings, there was a consensus among your top health care and budget advisors that there is no clear vision for a prudent long-term Medicare solution at this moment. Our recommendation is that the wiser course is to focus on constructing a solution to long-term Social Security problems first and to ensure that any Medicare Commission is conceived as more of a study by experts that lays the groundwork and defines the options for long-term reform.

I want to reenforce a few points to make clear that we are in no way recommending a hands-off or inaction approach to long-term Medicare reform. First, we will be engaging in an ongoing, internal NEC process to unearth the substantive and strategic solutions for both Medicare and Social Security. With further study, views on substantive positions on certain Medicare reforms could change and, if they do, we will keep you continually updated.

Second, there may be important Medicare reforms that we can enact in the near term without a commission that, while not remedying our long-term solvency problem, could nonetheless strengthen and improve the program.

Third, a strong, expert Medicare commission could truly help develop ideas that could make long-term reform more promising.

And, fourth, it is always possible that the political landscape could change in ways that would make current, non-politically viable options -- such as raising the Medicare payroll tax -- more acceptable as a means of preserving Medicare's solvency.

THE WHITE HOUSE

WASHINGTON

CLOSE HOLD

July 3, 1997

MEMORANDUM TO THE PRESIDENT

FROM: **GENE SPERLING**

SUBJECT: **Long-term entitlement reform**

As you know, our original game plan on long-term entitlement reform was first to pass the balanced budget agreement and then to turn our attention to the longer-run challenges. But we no longer have the luxury of waiting until after the budget agreement is implemented: both the House and Senate reconciliation bills set up Medicare commissions. Even if we preferred not to have a Medicare commission, we are unlikely to be able to remove it from the final reconciliation package. We should, however, be able to influence its structure and focus. We must therefore decide immediately how to shape the Medicare commission into a form most consistent with our objectives. We must also decide whether we want to set up a commission on Social Security -- probably separately from the Medicare commission -- within the budget legislation.

The purpose of this memorandum is to explore three related questions and to give you an opportunity to provide us with your guidance on these questions. First, should our long-term entitlement strategy put more priority on initial action on Social Security reform or Medicare reform? Second, even if we believe that our best strategy is to focus initially on Social Security, how should we try to change the congressional proposals to ensure that the Medicare commission neither interferes with our efforts on Social Security nor produces problems for Medicare? Third, should we support the creation of a Social Security commission now, or should we allow ourselves more time to analyze the best way to proceed?

I. Where should we initially focus our efforts on long-term entitlement reform?

A first step in addressing our immediate concerns is that you must decide where to place our initial emphasis in long-term entitlement reform. Senator Lott and other Hill leaders have indicated that they want to tackle long-term Medicare reform first. *But your economic and health advisers believe that we should concentrate our initial political capital primarily on Social Security.* The basic argument is that the various options for tackling Social Security are – at least by comparison with Medicare – well-researched and relatively well-understood. Our understanding of how to address the long-term solvency of Medicare is limited. Indeed, your four top health advisers -- Donna Shalala, Chris Jennings, Bruce Vladeck, and Nancy-Ann Min -- believe that the budget agreement embodies most of the obvious steps in reforming Medicare, and that we need much more analysis before considering which additional long-term policies are sensible. Even new proposals such as raising the eligibility age from 65 to 67 and introducing a home health care co-payment will have only a small impact over the long run. Medicare combines Social Security's demographic challenges with those posed by a health care delivery system characterized by generally rising health costs per beneficiary but much uncertainty over the dynamic evolution of those costs, making effective reform particularly complicated.

Chris Jennings will be submitting a separate memorandum to you explaining why long-term Medicare reform is difficult. Nonetheless, in deciding whether to pursue Social Security reform first, you should remember that such a strategy would be complicated because Senator Lott and other Republican Hill leaders favor addressing Medicare first.

Decision

________ Put initial emphasis on Social Security reform

________ Put initial emphasis on Medicare reform

________ Discuss

II. How should we respond to the Medicare commission proposals?

While you obviously have the option of opposing a Medicare commission in reconciliation, we believe that it is basically a done deal, and our focus should be on how to fix it to fit our needs. If you agree that we should focus our efforts on Social Security first, it is important that a Medicare commission not hinder or undermine that objective. For example, an over-hyped commission on Medicare with key officials from both sides and an early reporting date could divert attention away from Social Security reform. It could also lead to ill-conceived and possibly harmful recommendations for Medicare.

Under both the House and Senate plans, the commission would comprise 15 members (eight Republicans and seven Democrats): six (four Republicans and two Democrats) chosen by the Senate Majority Leader in consultation with the Senate minority leader, six (four Republicans and two Democrats) chosen by the Speaker in consultation with the House minority leader, and three Administration representatives. Under the House bill, you are not granted any discretion in choosing your representatives, who would be the Secretary of Treasury, the Secretary of Labor, and the Secretary of HHS. Thus, under the House bill, the Hill leadership could choose their own representatives, which provides distance from controversial decisions, while you would be forced to put three Cabinet secretaries on the commission. Unlike almost all previous commissions, neither the House nor the Senate proposal would give you the right to choose the chair. The reporting date for the commission would be May 1, 1999 under the House bill and one year after passage of the act -- implying a likely deadline of August 1998 -- under the Senate bill.

You could of course oppose the creation of any Medicare commission. However, your advisers would be concerned that opposition to a Medicare commission may be incorrectly viewed as indicating a lack of interest on our part in tackling entitlement reform. John Hilley believes that the Medicare commission will survive in conference regardless of whether we oppose it.

Instead of opposing a Medicare commission, we could try to ensure that any such commission is not over-hyped, forced to follow a face-track decision-making process leading to an up-or-down vote on a package, or in other ways crowds out your ability to put your initial focus on Social Security. There is enough uncertainty over the substance of Medicare reform, even among your top health advisers, that an intelligent analysis of the issues by a commission could prove extremely beneficial. A commission comprising serious, top-flight people could thus advance the cause of Medicare reform by illuminating possible options, much like the Gramlich commission did for Social Security. To ensure that a Medicare commission is beneficial and does not detract from Social Security reform, we would recommend several changes to the congressional proposals:

- **Membership.** We should not be required to name top Administration officials to the commission, which would preferably also not include Senators and Representatives. If its membership includes top policy-makers, the commission may be constrained by possibly premature policy statements and would seem unlikely to engage in the type of wide-ranging analysis most beneficial on the Medicare front. A commission comprising outside specialists and academics seems more auspicious. As mentioned above, the House version currently appoints to the commission the Secretaries of Treasury, Health and Human Services, and Labor, but grants flexibility to the congressional leadership over appointments. We could fight to remove the Cabinet members from the commission and provide you with full discretion over your appointments.

- **Party balance.** We should also insist on a truly bipartisan commission, with equal numbers of Republicans and Democrats. The current proposals would have eight Republicans and seven Democrats.

- **Chair.** The chair of the commission could set the tone for the entire exercise. Unlike almost all previous commissions, the congressional proposals do not allow you to appoint the chair of the commission. We could insist that you appoint the chair. As a fall-back, we could ask that the chair be chosen mutually.

- **Consensus voting rules.** We could insist on super-majority (3/5 or 2/3) voting for any of the commission's recommendations -- making it more likely that a diversity of views would be represented in the commission's work. Unfortunately, even super-majority voting may not be able to prevent bad outcomes, given the most likely makeup of the commission. (A super-majority could likely be achieved even if only two of the four congressionally-appointed minority members vote with the majority.)

- **Reporting deadline.** The House proposal includes a May 1, 1999 deadline. The Senate proposal sets a deadline of one year after passage of the act -- implying a likely deadline of August 1998. An August 1998 deadline is likely to be too soon to permit the commission to conduct a careful analysis. And the May 1999 deadline would allow us time to make proposals on Social Security before the Medicare commission reports.

- **Analysis.** The House proposal requires the commission to use CBO rather than HCFA estimates. HCFA has produced the numbers for previous commissions, and HCFA should produce them here as well.

Decision

________ Support changes to Medicare commission proposals outlined above

________ Do not support changes to proposals outlined above

________ Discuss

III. Should we support a Social Security commission within the budget legislation?

As noted above, your advisers believe that we should initially focus our long-term entitlement efforts on Social Security. Although it will not be easy to obtain, true Social Security reform would ease the burden from expected increases in the elderly dependency ratio over the next several decades, and would represent a substantial and lasting achievement of your second term. Regardless of the process, *the Administration would need to spend much of next year -- perhaps starting as early as this fall -- educating the American public and reaching out across the political spectrum to build support for reform.* Historically, a short-term crisis has been necessary for change. (Scholars argue, for example, that the success of the 1983 Greenspan commission was due in large part to the imminent exhaustion of the Trust Fund.) We do not face such a short-term crisis now, making it more difficult to motivate reform. <u>Your challenge would be to motivate the nation to sensibly address and protect one of our most successful programs -- so we could avoid dealing with it in a more disruptive crisis environment later</u>. Public understanding of these issues – though still inadequate – is far greater than it has been before. And early action would permit time to implement changes gradually -- and slowly phased-in changes may be more feasible than sudden ones.

The immediate question before us is whether creating a bipartisan Social Security commission in reconciliation will help our chances for achieving long-term reform. Some think the best way to proceed on Social Security is to include a commission in the budget legislation. Others think that we should take more time before pushing for a commission, so that we can more carefully consider our options. Then if we decide that we want a commission later, we could always create one by executive order (as with the Greenspan commission in the early 1980's) or by a separate statute.

Option 1: Try to negotiate a bipartisan Social Security commission in the budget legislation

Under the first option, we would engage the Republicans immediately to create a bipartisan Social Security commission within the omnibus budget legislation. The goal would be to make the commission <u>credible and specific</u>: It would be charged with issuing its recommendations within a relatively short time period, perhaps by next summer.

- Under one approach, the commission's membership could include all key policy players from the beginning. This approach would facilitate rapid implementation of proposals.

- An alternative approach would have the commission represent a broader array of relevant groups: older Americans, younger Americans, the unions, corporate leaders, etc. The commission's proceedings would then be used as part of our public education effort.

Following the commission's report, we could hold a smaller high-level negotiating process or look to another process -- perhaps including announcing our own proposals -- to implement reform.

While a commission was undertaking its work, an inter-agency team within the Administration would put together our own proposals. The Administration would then work with the commission and the Hill to reach consensus on an acceptable package that would carry bipartisan support, and to translate the commission's proposals into legislation.

John Hilley wanted to emphasize that even if we try to create a Social Security commission in the budget reconciliation legislation, we may not succeed. Senator Lott and other Republican leaders want to focus initial efforts on Medicare instead.

Option 2: Do not create a Social Security commission within the budget legislation -- instead act later, either with or without a commission

The alternative is not to create a commission within the budget legislation, but rather to engage with the Republicans later -- either with or without a commission. The logic is that we should not create a bipartisan process before we have fully developed our own strategy for Social Security reform and considered what bipartisan processes would best advance that strategy.

For example, our strategy could involve holding our own series of public education events, while reaching out to prominent Republicans like Bob Dole or Warren Rudman. It could include a series of regional public hearings. And it could include a commission created by executive order, or one created by statute. There are many possibilities, and with more time we could think through which ones are most promising. After we reached internal consensus on the right approach, we would be able to present a coherent, unified front and would be more likely to achieve success. And after we evaluate our options, it may turn out that we do not even need a commission: Frank Raines points out that President Carter was able to reform the Social Security system without one.

Pros and cons of including a Social Security commission in the budget legislation

Pros

- It dissipates some of the focus away from a Medicare commission, maintaining momentum behind Social Security reform.
- You would clearly signal your commitment to Social Security reform.

- Secretary Rubin and John Hilley feel that we have a short window of opportunity to engage in a bipartisan process, and that opportunity could be lost if we wait to analyze our options further.

Cons

- It may not make sense to create a commission before we have carefully explored the best strategy for achieving reform.

  -- Moving now would not allow us time to consider our options and to consult with the Republican and Democratic leadership, Senator Moynihan, the AARP, and others on how best to proceed.

- Given that Senator Lott and other Hill leaders want to focus initially on Medicare, we may not even succeed in getting a Social Security commission into the budget legislation.

- Some are not sure that a commission is beneficial or necessary for effecting reform.

Decision

________ Create Social Security commission within budget legislation

________ Do not create Social Security commission within budget legislation to allow more time to consider strategy

________ Discuss

Action

We will be convening an NEC inter-agency process with your budget team, HHS, DPC, and others appropriate to consider both the strategy and substance of Medicare and Social Security reforms. I will talk with Erskine about how best to design a process for ensuring that we maintain the appropriate degree of confidentiality while still benefitting from the insights of relevant agencies and officials.

If you want to create a Social Security commission within the budget legislation, we will hold an expedited process to present you with options on how that commission should be structured.

THE WHITE HOUSE

WASHINGTON

July 3, 1997

MEMORANDUM TO THE PRESIDENT

FROM: Chris Jennings CJ

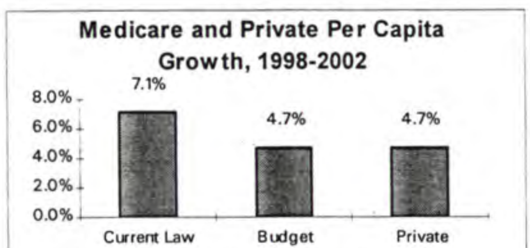
cc: Gene Sperling, Bruce Reed, John Hilley

SUBJECT: The Challenge of Long-Term Medicare Reform

Both the House and the Senate reconciliation bills include a Medicare Commission to address long-term reform. Your policy advisors from NEC, DPC, CEA, OMB, HHS, and Treasury have uniformly concluded that it is highly unlikely that a politically and policy-viable Medicare reform initiative, which comprehensively addresses the program's long-term financing challenges, can emerge from a Commission within the next one or two years. This memo focuses on the underpinnings of this conclusion and supplements the decision memo Gene sent to you yesterday.

BACKGROUND

The Medicare reforms in the budget agreement represent a major restructuring of the program and produce savings that are larger than any enacted in the history of the program. In fact, the Congressional Budget Office (CBO) projects that Medicare spending under the budget would slow from 7.1 percent per capita to 4.7 percent on average between 1998 and 2002 — almost exactly mirroring the projected private premium growth of 4.7 percent. Medicare's Actuaries estimate that the policies we are supporting in the upcoming House/Senate conference would extend the life of the Hospital Insurance (Part A) Trust Fund through 2010.

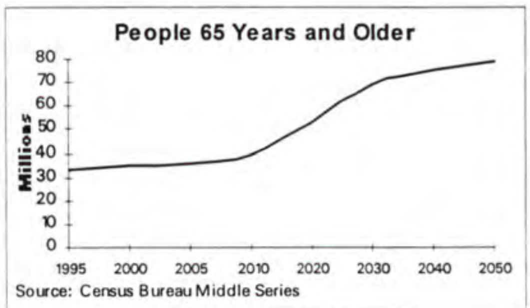


Note: Based on Preliminary Estimates Senate Bill; CBO Baseline

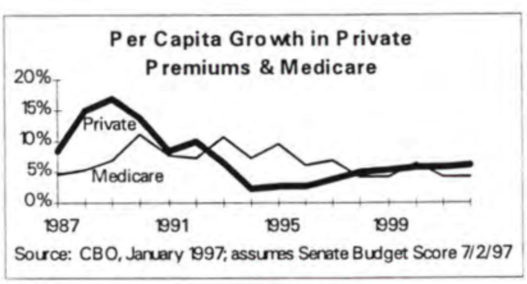
Even more important than the unprecedented level of savings credited to us by CBO are the structural changes to the program that have extraordinary potential to constrain Medicare growth for a much greater time than a traditional 5-year budget would produce. Specifically, your reforms provide for: (1) more managed care plan choices (PPOs and Provider Sponsored Organizations); (2) the authority to develop and implement "risk adjusted" managed care reimbursement reforms; (3) the establishment of prospective payment for nursing homes, home health care, and outpatient departments; (4) the authority to use new "prudent purchasing" techniques (like competitive bidding for the myriad devices and services that Medicare buys); (5) a major set of anti-fraud and abuse initiatives; and (6) the coverage of services and tests that detect diseases before they become severe and expensive to treat. These important provisions could produce savings that would have a significantly positive impact on the state of the Medicare Trust Fund during the next decade and beyond.

Although CBO does not give full credit to the above-mentioned structural reforms as producing significant "scorable" savings, health policy experts agree that they are more important to the program's long-term viability than traditional fee-for-service cuts. The elite media, however, does not define these major changes as "structural reform" because their definition cannot be met unless beneficiaries are directly hit and are complaining about it.

Regardless of all the positive changes to Medicare we hope to make this year, the long-term financing crisis remains constant. Medicare's spending growth, while constrained in the next 10 years due to the budget, will increase thereafter. This growth will be primarily driven by demographics. Beginning in 2010, the baby boom generation begins to turn 65 years old. The number of people age 65 and older is projected to increase from 39 million in 2010 to 69 million in 2030. People aged 85 and older will double by 2025 and increase fivefold by 2050. In 2030, one in five Americans will be elderly compared to 13 percent today. This will have an enormous impact on Medicare although its impact might be mitigated by other trends. For instance, seniors in the 21st century might be wealthier or healthier and have less of a need for health care. Or, if given the opportunity or need, they might choose to extend their working careers and maintain their employer coverage.



Additionally, Medicare's spending growth is inextricably linked to general health inflation. In fact, with the exception of the last several years, Medicare spending growth per beneficiary has paralleled that of the private spending per person over the last 30 years. This is good news as long as the private sector continues to be successful at constraining costs to the levels they have in recent years; unfortunately, the most recent forecasts predict a possible return to higher private sector health care inflation. The unanswerable question in health care these days is can private and public successes in constraining cost growth be repeated for long periods of time OR are we about to witness a new cycle of inflation that will not easily be broke because the excess in the system was squeezed out in the 1990s.



This uncertainty is increased by the nature of health care. The factors that affects its growth — different disease patterns, scientific break-throughs, changes in technology and health care delivery systems — will have profound but as-yet unknown effects on Medicare spending's rate of increase. If, for example, the new age of biology starts producing remarkably successful treatments for extraordinarily expensive diseases, a brand new and positive Medicare Trust Fund cost projection could ensue.

Range of Options

Unfortunately, in the proposed Commission's one to two-year time frame, we will not know the real benefit of the new structural reforms. We also will not have any better understanding of possible dramatic positive or negative health spending trends, described earlier, that could change the size and nature of Medicare's long-term problem. As a result, any Medicare Commission would work off assumptions that are fairly close to our current projections — however flawed and temporal they may be. So, for instance, working off of this baseline, even if we could maintain a relatively low per capita cost growth over an extended period of time, the Actuaries suggest it would still be necessary to find hundreds of billions to make the Trust Fund solvent in the long-term. This would require the Commission to consider all or a combination of the following range of options:

Provider cuts. Reducing payment rates to providers is typically the first place that policy makers go to achieve Medicare savings. Both in the recent past and near future, there has been enough excess in the system to generate significant savings from this approach. While there are still ways to improve provider payments, the size of the financing problem will dwarf savings from these changes. Provider cuts that reduce Medicare growth well below private premium growth could potentially cause problems with access, quality, hospital closure, and the general criticism of turning the program into a "second class" system.

Benefits reduction. Another way to reduce costs is to reduce what is covered. Although strong arguments can be made for re-designing certain benefits to have a greater and more traditional copayment structure, such an approach would do little other than to cost-shift to private Medigap plans or the Medicaid program which, taken together, cover 85 percent of the elderly. In so doing, we would not be addressing the over-utilization problem unless we prohibited Medigap plans from offering the first-dollar copayment coverage. While arguably good policy, such an approach does not seem likely to emerge from the current Congress. Finally, and perhaps most importantly, the Medicare benefits package — contrary to its image — is not excessively generous to start with. In fact, because it does not cover prescription drugs or cover catastrophic costs, it ranks in the 20th percentile of plans offered by large businesses. As such, reducing the benefits package is not easy to do when it already has a value well below that of the standard Federal employee package.

Beneficiary contribution increases. Last week, the Senate affirmed a growing sentiment that Medicare beneficiaries should shoulder more of the costs of Medicare through both premium and cost sharing increases. While there is undoubtedly some room to do this, particularly for premiums for high-income beneficiaries, it is important to keep in mind that Medicare's benefits pay for less than half of the health care costs of seniors; the average community-based elderly person pays about $2,600 per year for premiums and out-of-pocket health care costs. In addition, increased cost sharing — as mentioned above — has its effect blunted by Medicaid and Medigap. And, lastly, even if we assume the enactment of all of the new beneficiary contributions passed by the Senate, the life of the Trust Fund would be extended by less than 2 years.

Defined contribution / voucher / private plan approach. During the 1995 budget debate, Republicans proposed to cut $270 billion primarily by putting a cap on Federal Medicare spending. In other words, beneficiaries would be entitled to a fix dollar amount or "defined contribution" rather than a defined benefit. This approach is similar to increased beneficiary contributions in that its effect (if not its goal) is to limit Federal liabilities. And, like beneficiary contributions, it may not slow overall Medicare cost growth. Plans and providers may react to the fixed contribution by reducing their own costs to compete within this cap. Alternatively, they could erode the benefits, quality of care, or bill beneficiaries to make up for losses. If not done extremely carefully, this policy could undermine Medicare's basic promise of health care for the elderly and disabled. Moreover, since the program is already growing at a relatively modest 5 percent per person clip, a defined contribution's growth would have to set well below this amount to achieve the savings needed under today's definition of the Trust Fund problem. In fact, the Medicare Actuaries estimate that this growth would have to be below general inflation (about 1 to 2 percent per capita) to achieve long-term solvency without tax increases. Over time, this could produce access problems as managed care plans avoid the sickest beneficiaries.

Taxes. If there is not a significant downward adjustment in the current long-term financing projections, a bipartisan Commission would likely be forced to suggest a significant increase in the current Medicare payroll tax. For example, even if we assumed success in maintaining per capita growth rates at or below 5 percent through provider payment reductions and structural reform, the Medicare Actuaries project the need for a 2.4 percentage point increase in the Medicare HI payroll tax (to 5.3 percent from 2.9 percent). Such an increase would raise $540 billion over 5 years.

Conclusion

Medicare's long-term financing is one of the most important public policy issues of our generation. However, as outlined above, the exact size of the problem depends on health inflation trends, the nature of the demographic changes, and the long-term impact of the structural reforms passed in this year's budget. We are concerned about the potential negative consequences of a Commission that has the almost impossible burden of reviewing a rapidly changing program in an compressed amount of time and, in so doing, developing ill-informed and rushed recommendations.

Unlike Social Security, there has been no comprehensive attempt to define problems and new trends facing the program, and to develop thoughtful analysis and options. If we assume current trends and push forward with recommendations on Medicare, we will face a choice of extremely difficult and unpopular options — options that appear unlikely to gain much consensus, particularly in the absence of a perceived crisis. Moreover, attempts to move quickly may well lead to ill conceived and inadequately considered proposals that could undermine rather than strengthen Medicare. Finally, groups such as AARP have quietly indicated to us a great preference for Social Security over Medicare reforms, and are willing to work with us to help educate their Members and younger generations of Americans on this matter.

As a result of our concerns with the Medicare Commission provisions pending in the budget conference, we are recommending that we focus our efforts on redesigning any Commission that emerges from the budget reconciliation bill to be a study-oriented, non-binding body that is not "stacked" against the Administration. Its findings would be used to inform and advance the debate on how to address the long-term financing challenge, but the Commission itself would not be expected to come up with the final resolution(s) to the problem.

Finally, in suggesting a cautious approach with any Medicare Commission, we are not advocating allowing Medicare's problems to go unaddressed. As we better understand the dimensions of the long-term problem, we can take the necessary actions that the problem requires. In the meantime, we should give serious consideration to addressing the policy shortcomings of the income-related premium proposal passed by the Senate to make it acceptable for inclusion in either the budget agreement or some other legislative vehicle that subsequently becomes available. (Clearly, opting for this type of reform in the context of the balanced budget will require a reading by John Hilley and others of how it would affect the votes from our rather shaky Democratic base in the House.) In addition, there are other reforms like postponing Medicare's eligibility age to 67 (with protection to ensure access to coverage), making Medicare managed care more competitive, requiring Medicare managed care plans to offer standardized benefits (e.g., basic coverage and basic plus drugs), and Medigap reforms that could make significant contributions to the long-term financing problem.

We will keep you informed of both developments on the Hill with regard to the Commission and our internal discussions about long-term financing reform of the Medicare program.

225273

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THE WHITE HOUSE

WASHINGTON

July 3, 1997

MEMORANDUM TO THE PRESIDENT

FROM: Chris Jennings CCJ

cc: Gene Sperling, Bruce Reed, John Hilley

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Both the House and the Senate reconciliation bills include a Medicare Commission to address long-term reform. Your policy advisors from NEC, DPC, CEA, OMB, HHS, and Treasury have uniformly concluded that it is highly unlikely that a politically and policy-viable Medicare reform initiative, which comprehensively addresses the program's long-term financing challenges, can emerge from a Commission within the next one or two years. This memo focuses on the underpinnings of this conclusion and supplements the decision memo Gene sent to you yesterday.

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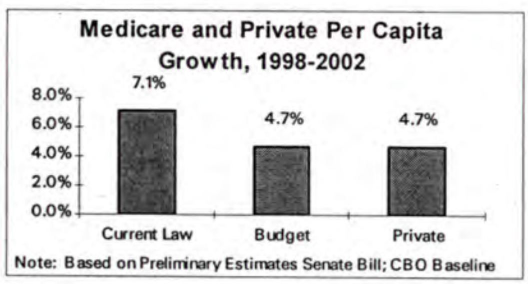

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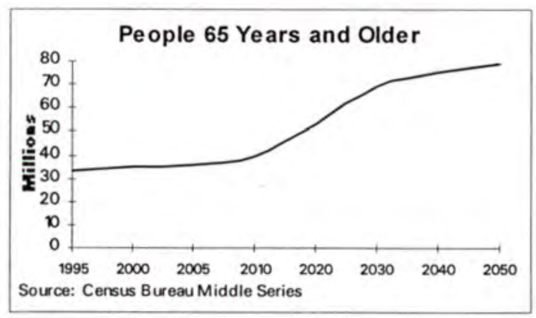

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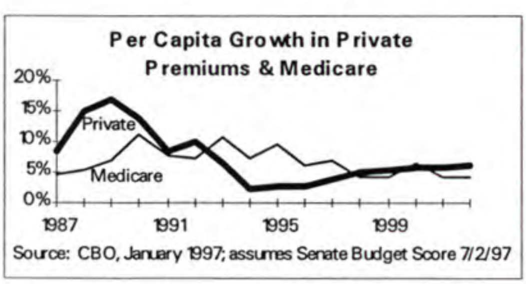

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We will keep you informed of both developments on the Hill with regard to the Commission and our internal discussions about long-term financing reform of the Medicare program.

CLOSE HOLD

Document No.________

WHITE HOUSE STAFFING MEMORANDUM

DATE: 7/3 ACTION/CONCURRENCE/COMMENT DUE BY: Immediate

SUBJECT: Long-term entitlement reform

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☑	☐	McCURRY	☐	☐
BOWLES	☑	☐	McGINTY	☐	☐
McLARTY	☐	☐	NASH	☐	☐
PODESTA	☑	☐	RUFF	☐	☐
MATHEWS	☑	☐	SMITH	☐	☐
RAINES	☐	☐	REED	☐	☐
BAER	☐	☐	SOSNIK	☐	☐
ECHAVESTE	☐	☐	LEWIS	☐	☐
EMANUEL	☐	☐	YELLEN	☐	☐
GIBBONS	☐	☐	STREETT	☐	☐
IBARRA	☐	☐	SPERLING	☐	☐
RADD	☐	☐	TARULLO	☐	☐
MARSHALL	☐	☐	VERVEER	☐	☐
HILLEY	☑	☐	WALDMAN	☐	☐
KLAIN	☐	☐	________	☐	☐
BERGER	☐	☐	________	☐	☐
LINDSEY	☐	☐	________	☐	☐

verbal 7/3 OKs

REMARKS:

Please advise

RESPONSE:

CLOSE HOLD

Staff Secretary
Ext. 6-2702

THE WHITE HOUSE

WASHINGTON

CLOSE HOLD

July 2, 1997

'97 JUL 2 PM 10:53

MEMORANDUM TO THE PRESIDENT

FROM: **GENE SPERLING**

SUBJECT: **Long-term entitlement reform**

As you know, our original game plan on long-term entitlement reform was first to pass the balanced budget agreement and then to turn our attention to the longer-run challenges. But we no longer have the luxury of waiting until after the budget agreement is implemented: both the House and Senate reconciliation bills set up Medicare commissions. We must therefore decide immediately whether to accept a commission on long-term Medicare reform. We must also decide whether we want to set up a commission on Social Security -- probably separately from the Medicare commission -- within the budget legislation.

The purpose of this memorandum is to explore three related questions and to give you an opportunity to provide us with your guidance on these questions. First, should our long-term entitlement strategy put more priority on initial action on Social Security reform or Medicare reform? Second, even if we believe that our best strategy is to focus initially on Social Security, should we still support a Medicare commission, and, if so, should we try to change the congressional proposals to ensure that the commission neither interferes with our efforts on Social Security nor produces problems for Medicare? Third, should we support the creation of a Social Security commission now, or should we allow ourselves more time to analyze the best way to proceed?

Where should we initially focus our efforts on long-term entitlement reform?

A first step in addressing our immediate concerns is that you must decide where to place our initial emphasis in long-term entitlement reform. Senator Lott and other Hill leaders have indicated that they want to tackle long-term Medicare reform first. *But your economic and*

health advisers believe that we should concentrate our initial political capital primarily on Social Security. The basic argument is that the various options for tackling Social Security are – at least by comparison with Medicare – well-researched and relatively well-understood. Our understanding of how to address the long-term solvency of Medicare is limited. Indeed, your four top health advisers -- Donna Shalala, Chris Jennings, Bruce Vladeck, and Nancy-Ann Min -- believe that the budget agreement embodies most of the obvious steps in reforming Medicare, and that we need much more analysis before considering which additional long-term policies are sensible. Even new proposals such as raising the eligibility age from 65 to 67 and introducing a home health care co-payment will have only a small impact over the long run. Medicare combines Social Security's demographic challenges with those posed by a health care delivery system characterized by generally rising health costs per beneficiary but much uncertainty over the dynamic evolution of those costs, making effective reform particularly complicated.

Chris Jennings will be submitting a separate memorandum to you explaining why long-term Medicare reform is difficult. Nonetheless, in deciding whether to pursue Social Security reform first, you should remember that such a strategy would be complicated because Senator Lott and other Republican Hill leaders favor addressing Medicare first.

How should we respond to the Medicare commission proposals?

While you obviously have the option of opposing a Medicare commission in reconciliation, we believe that it is basically a done deal, and our focus should be on how to fix it to fit our needs. If you agree that we should focus our efforts on Social Security first, it is important that a Medicare commission not hinder or undermine that objective. For example, an over-hyped commission on Medicare with key officials from both sides and an early reporting date could divert attention away from Social Security reform. It could also lead to ill-conceived and possibly harmful recommendations for Medicare.

Under both the House and Senate plans, the commission would comprise 15 members (eight Republicans and seven Democrats): six (four Republicans and two Democrats) chosen by the Senate Majority Leader in consultation with the Senate minority leader, six (four Republicans and two Democrats) chosen by the Speaker in consultation with the House minority leader, and three Administration representatives. Under the House bill, you are not granted any discretion in choosing your representatives, who would be the Secretary of Treasury, the Secretary of Labor, and the Secretary of HHS. Thus, under the House bill, the Hill leadership could choose their own representatives, which provides distance from controversial decisions, while you would be forced to put three Cabinet secretaries on the commission. Unlike almost all previous commissions, neither the House nor the Senate proposal would give you the right to choose the chair. The reporting date for the commission would be May 1, 1999 under the House bill and one year after passage of the act -- implying a likely deadline of August 1998 -- under the Senate bill.

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Instead of opposing a Medicare commission, we could try to ensure that any such commission is not over-hyped, forced to follow a face-track decision-making process leading to an up-or-down vote on a package, or in other ways crowds out your ability to put your initial focus on Social Security. There is enough uncertainty over the substance of Medicare reform, even among your top health advisers, that an intelligent analysis of the issues by a commission could prove extremely beneficial. A commission comprising serious, top-flight people could thus advance the cause of Medicare reform by illuminating possible options, much like the Gramlich commission did for Social Security. To ensure that a Medicare commission is beneficial and does not detract from Social Security reform, we would recommend several changes to the congressional proposals:

- **Membership.** We should not be required to name top Administration officials to the commission, which would preferably also not include Senators and Representatives. If its membership includes top policy-makers, the commission may be constrained by possibly premature policy statements and would seem unlikely to engage in the type of wide-ranging analysis most beneficial on the Medicare front. A commission comprising outside specialists and academics seems more auspicious. As mentioned above, the House version currently appoints to the commission the Secretaries of Treasury, Health and Human Services, and Labor, but grants flexibility to the congressional leadership over appointments. We could fight to remove the Cabinet members from the commission and provide you with full discretion over your appointments.

- **Party balance.** We should also insist on a truly bipartisan commission, with equal numbers of Republicans and Democrats. The current proposals would have eight Republicans and seven Democrats.

- **Chair.** The chair of the commission could set the tone for the entire exercise. Unlike almost all previous commissions, the congressional proposals do not allow you to appoint the chair of the commission. We could insist that you appoint the chair. As a fall-back, we could ask that the chair be chosen mutually.

- **Consensus voting rules.** We could insist on super-majority (3/5 or 2/3) voting for any of the commission's recommendations -- making it more likely that a diversity of views would be represented in the commission's work. Unfortunately, even super-majority voting may not be able to prevent bad outcomes, given the most likely makeup of the commission. (A super-majority could likely be achieved even if only two of the four congressionally-appointed minority members vote with the majority.)

- **Reporting deadline.** The House proposal includes a May 1, 1999 deadline. The Senate proposal sets a deadline of one year after passage of the act -- implying a likely deadline of August 1998. An August 1998 deadline is likely to be too soon to permit the commission to conduct a careful analysis. And the May 1999 deadline would allow us time to make proposals on Social Security before the Medicare commission reports.

- **Analysis.** The House proposal requires the commission to use CBO rather than HCFA estimates. HCFA has produced the numbers for previous commissions, and HCFA should produce them here as well.

Should we support a Social Security commission now?

As noted above, your advisers believe that we should initially focus our long-term entitlement efforts on Social Security. Although it will not be easy to obtain, true Social Security reform would ease the burden from expected increases in the elderly dependency ratio over the next several decades, and would represent a substantial and lasting achievement of your second term. Regardless of the process, *the Administration would need to spend much of next year -- perhaps starting as early as this fall -- educating the American public and reaching out across the political spectrum to build support for reform.* Historically, a short-term crisis has been necessary for change. (Scholars argue, for example, that the success of the 1983 Greenspan commission was due in large part to the imminent exhaustion of the Trust Fund.) We do not face such a short-term crisis now, making it more difficult to motivate reform. <u>Your challenge would be to motivate the nation to sensibly address and protect one of our most successful programs -- so we could avoid dealing with it in a more disruptive crisis environment later.</u> Public understanding of these issues – though still inadequate – is far greater than it has been before. And early action would permit time to implement changes gradually -- and slowly phased-in changes may be more feasible than sudden ones.

The immediate question before us is whether creating a bipartisan Social Security commission in reconciliation will help our chances for achieving long-term reform. Some think the best way to proceed on Social Security is to include a commission in the budget legislation. Others think that we should take more time before pushing for a commission, so that we can more carefully consider our options. Then if we decide that we want a commission later, we could always create one by executive order (as with the Greenspan commission in the early 1980's) or by a separate statute.

Option 1: Try to negotiate a bipartisan Social Security commission in the budget legislation

Under the first option, we would engage the Republicans immediately to create a bipartisan Social Security commission within the omnibus budget legislation. The goal would be to make the commission credible and specific: It would be charged with issuing its recommendations within a relatively short time period, perhaps by next summer.

- Under one approach, the commission's membership could include all key policy players from the beginning. This approach would facilitate rapid implementation of proposals.

- An alternative approach would have the commission represent a broader array of relevant groups: older Americans, younger Americans, the unions, corporate leaders, etc. The commission's proceedings would then be used as part of our public education effort. Following the commission's report, we could hold a smaller high-level negotiating process or look to another process -- perhaps including announcing our own proposals -- to implement reform.

While a commission was undertaking its work, an inter-agency team within the Administration would put together our own proposals. The Administration would then work with the commission and the Hill to reach consensus on an acceptable package that would carry bipartisan support, and to translate the commission's proposals into legislation.

Option 2: Do not create a Social Security commission within the budget legislation -- instead act later, either with or without a commission

The alternative is not to create a commission within the budget legislation, but rather to engage with the Republicans later -- either with or without a commission. The basic logic is that we should not create a bipartisan process before we have fully developed our own strategy for Social Security reform and considered what bipartisan processes would best advance that strategy.

For example, our strategy could involve holding our own series of public education events, while reaching out to prominent Republicans like Bob Dole or Warren Rudman. It could include a series of regional public hearings. And it could include a commission created by executive order, or one created by statute. There are many possibilities, and with more time we could think through which ones are most promising. After we reached internal consensus on the right approach, we would be able to present a coherent, unified front and would be more likely to achieve success. And after we evaluate our options, it may turn out that we do not even need a commission: Frank Raines points out that President Carter was able to reform the Social Security system without one.

Pros and cons of including a Social Security commission in the budget legislation

Pros

- It dissipates some of the focus away from a Medicare commission, maintaining momentum behind Social Security reform.

- You would clearly signal your commitment to Social Security reform.

- Secretary Rubin and John Hilley feel that we have a short window of opportunity to engage in a bipartisan process, and that opportunity could be lost if we wait to analyze our options further.

Cons

- It may not make sense to create a commission before we have carefully explored the best strategy for achieving reform.

  -- Moving now would not allow us time to consider our options and to consult with the Republican and Democratic leadership, Senator Moynihan, the AARP, and others on how best to proceed.

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Action

We will be convening an NEC inter-agency process with your budget team, HHS, DPC, and others appropriate to consider both the strategy and substance of Medicare and Social Security reforms. I will talk with Erskine about how best to design a process for ensuring that we maintain the appropriate degree of confidentiality while still benefitting from the insights of relevant agencies and officials.

If you want to create a Social Security commission within the budget legislation, we will hold an expedited process to present you with options on how that commission should be structured.

Decisions

Medicare commission

________ Support changes to proposals outlined above

________ Do not support changes to proposals outlined above

________ Discuss

Social Security commission

________ Create Social Security commission within budget legislation

________ Do not create Social Security commission within budget legislation to allow more time to consider strategy

________ Discuss

THE WHITE HOUSE

WASHINGTON

CLOSE HOLD
July 3, 1997

MEMORANDUM TO THE PRESIDENT

FROM: **GENE SPERLING**

SUBJECT: **Long-term entitlement reform**

As you know, our original game plan on long-term entitlement reform was first to pass the balanced budget agreement and then to turn our attention to the longer-run challenges. But we no longer have the luxury of waiting until after the budget agreement is implemented: both the House and Senate reconciliation bills set up Medicare commissions. We must therefore decide immediately whether to accept a commission on long-term Medicare reform. We must also decide whether we want to set up a commission on Social Security -- probably separately from the Medicare commission -- within the budget legislation.

The purpose of this memorandum is to explore three related questions and to give you an opportunity to provide us with your guidance on these questions. First, should our long-term entitlement strategy put more priority on initial action on Social Security reform or Medicare reform? Second, even if we believe that our best strategy is to focus initially on Social Security, should we still support a Medicare commission, and, if so, should we try to change the congressional proposals to ensure that the commission neither interferes with our efforts on Social Security nor produces problems for Medicare? Third, should we support the creation of a Social Security commission now, or should we allow ourselves more time to analyze the best way to proceed?

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Chris Jennings will be submitting a separate memorandum to you explaining why long-term Medicare reform is difficult. Nonetheless, in deciding whether to pursue Social Security reform first, you should remember that such a strategy would be complicated because Senator Lott and other Republican Hill leaders favor addressing Medicare first.

Decision

________ Put initial emphasis on Social Security reform

________ Put initial emphasis on Medicare reform

________ Discuss

II. How should we respond to the Medicare commission proposals?

While you obviously have the option of opposing a Medicare commission in reconciliation, we believe that it is basically a done deal, and our focus should be on how to fix it to fit our needs. If you agree that we should focus our efforts on Social Security first, it is important that a Medicare commission not hinder or undermine that objective. For example, an over-hyped commission on Medicare with key officials from both sides and an early reporting date could divert attention away from Social Security reform. It could also lead to ill-conceived and possibly harmful recommendations for Medicare.

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- **Analysis.** The House proposal requires the commission to use CBO rather than HCFA estimates. HCFA has produced the numbers for previous commissions, and HCFA should produce them here as well.

Decision

________ Support changes to Medicare commission proposals outlined above

________ Do not support changes to proposals outlined above

________ Discuss

III. Should we support a Social Security commission within the budget legislation?

As noted above, your advisers believe that we should initially focus our long-term entitlement efforts on Social Security. Although it will not be easy to obtain, true Social Security reform would ease the burden from expected increases in the elderly dependency ratio over the next several decades, and would represent a substantial and lasting achievement of your second term. Regardless of the process, *the Administration would need to spend much of next year -- perhaps starting as early as this fall -- educating the American public and reaching out across the political spectrum to build support for reform.* Historically, a short-term crisis has been necessary for change. (Scholars argue, for example, that the success of the 1983 Greenspan commission was due in large part to the imminent exhaustion of the Trust Fund.) We do not face such a short-term crisis now, making it more difficult to motivate reform. <u>Your challenge would be to motivate the nation to sensibly address and protect one of our most successful programs -- so we could avoid dealing with it in a more disruptive crisis environment later.</u> Public understanding of these issues – though still inadequate – is far greater than it has been before. And early action would permit time to implement changes gradually -- and slowly phased-in changes may be more feasible than sudden ones.

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Pros and cons of including a Social Security commission in the budget legislation

<u>Pros</u>

- It dissipates some of the focus away from a Medicare commission, maintaining momentum behind Social Security reform.
- You would clearly signal your commitment to Social Security reform.
- Secretary Rubin and John Hilley feel that we have a short window of opportunity to engage in a bipartisan process, and that opportunity could be lost if we wait to analyze

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Decision

________ Create Social Security commission within budget legislation

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Action

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VP

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THE WHITE HOUSE

WASHINGTON

CLOSE HOLD
July 3, 1997

MEMORANDUM TO THE PRESIDENT

FROM: **GENE SPERLING**

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While a commission was undertaking its work, an inter-agency team within the Administration would put together our own proposals. The Administration would then work with the commission and the Hill to reach consensus on an acceptable package that would carry bipartisan support, and to translate the commission's proposals into legislation.

Option 2: Do not create a Social Security commission within the budget legislation -- instead act later, either with or without a commission

The alternative is not to create a commission within the budget legislation, but rather to engage with the Republicans later -- either with or without a commission. The basic logic is that we should not create a bipartisan process before we have fully developed our own strategy for Social Security reform and considered what bipartisan processes would best advance that strategy.

For example, our strategy could involve holding our own series of public education events, while reaching out to prominent Republicans like Bob Dole or Warren Rudman. It could include a series of regional public hearings. And it could include a commission created by executive order, or one created by statute. There are many possibilities, and with more time we could think through which ones are most promising. After we reached internal consensus on the right approach, we would be able to present a coherent, unified front and would be more likely to achieve success. And after we evaluate our options, it may turn out that we do not even need a commission: Frank Raines points out that President Carter was able to reform the Social Security system without one.

Pros and cons of including a Social Security commission in the budget legislation

Pros

- It dissipates some of the focus away from a Medicare commission, maintaining momentum behind Social Security reform.
- You would clearly signal your commitment to Social Security reform.
- Secretary Rubin and John Hilley feel that we have a short window of opportunity to engage in a bipartisan process, and that opportunity could be lost if we wait to analyze

our options further.

Cons

- It may not make sense to create a commission before we have carefully explored the best strategy for achieving reform.

    -- Moving now would not allow us time to consider our options and to consult with the Republican and Democratic leadership, Senator Moynihan, the AARP, and others on how best to proceed.

- Given that Senator Lott and other Hill leaders want to focus initially on Medicare, we may not even succeed in getting a Social Security commission into the budget legislation.

- Some are not sure that a commission is beneficial or necessary for effecting reform.

Decision

________ Create Social Security commission within budget legislation

________ Do not create Social Security commission within budget legislation to allow more time to consider strategy

________ Discuss

Action

We will be convening an NEC inter-agency process with your budget team, HHS, DPC, and others appropriate to consider both the strategy and substance of Medicare and Social Security reforms. I will talk with Erskine about how best to design a process for ensuring that we maintain the appropriate degree of confidentiality while still benefitting from the insights of relevant agencies and officials.

If you want to create a Social Security commission within the budget legislation, we will hold an expedited process to present you with options on how that commission should be structured.

COS

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THE WHITE HOUSE

WASHINGTON

CLOSE HOLD

July 3, 1997

MEMORANDUM TO THE PRESIDENT

FROM: **GENE SPERLING**

SUBJECT: **Long-term entitlement reform**

As you know, our original game plan on long-term entitlement reform was first to pass the balanced budget agreement and then to turn our attention to the longer-run challenges. But we no longer have the luxury of waiting until after the budget agreement is implemented: both the House and Senate reconciliation bills set up Medicare commissions. We must therefore decide immediately whether to accept a commission on long-term Medicare reform. We must also decide whether we want to set up a commission on Social Security -- probably separately from the Medicare commission -- within the budget legislation.

The purpose of this memorandum is to explore three related questions and to give you an opportunity to provide us with your guidance on these questions. First, should our long-term entitlement strategy put more priority on initial action on Social Security reform or Medicare reform? Second, even if we believe that our best strategy is to focus initially on Social Security, should we still support a Medicare commission, and, if so, should we try to change the congressional proposals to ensure that the commission neither interferes with our efforts on Social Security nor produces problems for Medicare? Third, should we support the creation of a Social Security commission now, or should we allow ourselves more time to analyze the best way to proceed?

I. Where should we initially focus our efforts on long-term entitlement reform?

A first step in addressing our immediate concerns is that you must decide where to place our initial emphasis in long-term entitlement reform. Senator Lott and other Hill leaders have indicated that they want to tackle long-term Medicare reform first. *But your economic and*

health advisers believe that we should concentrate our initial political capital primarily on Social Security. The basic argument is that the various options for tackling Social Security are – at least by comparison with Medicare – well-researched and relatively well-understood. Our understanding of how to address the long-term solvency of Medicare is limited. Indeed, your four top health advisers -- Donna Shalala, Chris Jennings, Bruce Vladeck, and Nancy-Ann Min -- believe that the budget agreement embodies most of the obvious steps in reforming Medicare, and that we need much more analysis before considering which additional long-term policies are sensible. Even new proposals such as raising the eligibility age from 65 to 67 and introducing a home health care co-payment will have only a small impact over the long run. Medicare combines Social Security's demographic challenges with those posed by a health care delivery system characterized by generally rising health costs per beneficiary but much uncertainty over the dynamic evolution of those costs, making effective reform particularly complicated.

Chris Jennings will be submitting a separate memorandum to you explaining why long-term Medicare reform is difficult. Nonetheless, in deciding whether to pursue Social Security reform first, you should remember that such a strategy would be complicated because Senator Lott and other Republican Hill leaders favor addressing Medicare first.

Decision

________ Put initial emphasis on Social Security reform

________ Put initial emphasis on Medicare reform

________ Discuss

II. How should we respond to the Medicare commission proposals?

While you obviously have the option of opposing a Medicare commission in reconciliation, we believe that it is basically a done deal, and our focus should be on how to fix it to fit our needs. If you agree that we should focus our efforts on Social Security first, it is important that a Medicare commission not hinder or undermine that objective. For example, an over-hyped commission on Medicare with key officials from both sides and an early reporting date could divert attention away from Social Security reform. It could also lead to ill-conceived and possibly harmful recommendations for Medicare.

Under both the House and Senate plans, the commission would comprise 15 members (eight Republicans and seven Democrats): six (four Republicans and two Democrats) chosen by

the Senate Majority Leader in consultation with the Senate minority leader, six (four Republicans and two Democrats) chosen by the Speaker in consultation with the House minority leader, and three Administration representatives. Under the House bill, you are not granted any discretion in choosing your representatives, who would be the Secretary of Treasury, the Secretary of Labor, and the Secretary of HHS. Thus, under the House bill, the Hill leadership could choose their own representatives, which provides distance from controversial decisions, while you would be forced to put three Cabinet secretaries on the commission. Unlike almost all previous commissions, neither the House nor the Senate proposal would give you the right to choose the chair. The reporting date for the commission would be May 1, 1999 under the House bill and one year after passage of the act -- implying a likely deadline of August 1998 -- under the Senate bill.

You could of course oppose the creation of any Medicare commission. However, your advisers would be concerned that opposition to a Medicare commission may be incorrectly viewed as indicating a lack of interest on our part in tackling entitlement reform. John Hilley believes that the Medicare commission will survive in conference regardless of whether we oppose it.

Instead of opposing a Medicare commission, we could try to ensure that any such commission is not over-hyped, forced to follow a face-track decision-making process leading to an up-or-down vote on a package, or in other ways crowds out your ability to put your initial focus on Social Security. There is enough uncertainty over the substance of Medicare reform, even among your top health advisers, that an intelligent analysis of the issues by a commission could prove extremely beneficial. A commission comprising serious, top-flight people could thus advance the cause of Medicare reform by illuminating possible options, much like the Gramlich commission did for Social Security. To ensure that a Medicare commission is beneficial and does not detract from Social Security reform, we would recommend several changes to the congressional proposals:

- **Membership.** We should not be required to name top Administration officials to the commission, which would preferably also not include Senators and Representatives. If its membership includes top policy-makers, the commission may be constrained by possibly premature policy statements and would seem unlikely to engage in the type of wide-ranging analysis most beneficial on the Medicare front. A commission comprising outside specialists and academics seems more auspicious. As mentioned above, the House version currently appoints to the commission the Secretaries of Treasury, Health and Human Services, and Labor, but grants flexibility to the congressional leadership over appointments. We could fight to remove the Cabinet members from the commission and provide you with full discretion over your appointments.

- **Party balance.** We should also insist on a truly bipartisan commission, with equal numbers of Republicans and Democrats. The current proposals would have eight Republicans and seven Democrats.

- **Chair.** The chair of the commission could set the tone for the entire exercise. Unlike almost all previous commissions, the congressional proposals do not allow you to appoint the chair of the commission. We could insist that you appoint the chair. As a fall-back, we could ask that the chair be chosen mutually.

- **Consensus voting rules.** We could insist on super-majority (3/5 or 2/3) voting for any of the commission's recommendations -- making it more likely that a diversity of views would be represented in the commission's work. Unfortunately, even super-majority voting may not be able to prevent bad outcomes, given the most likely makeup of the commission. (A super-majority could likely be achieved even if only two of the four congressionally-appointed minority members vote with the majority.)

- **Reporting deadline.** The House proposal includes a May 1, 1999 deadline. The Senate proposal sets a deadline of one year after passage of the act -- implying a likely deadline of August 1998. An August 1998 deadline is likely to be too soon to permit the commission to conduct a careful analysis. And the May 1999 deadline would allow us time to make proposals on Social Security before the Medicare commission reports.

- **Analysis.** The House proposal requires the commission to use CBO rather than HCFA estimates. HCFA has produced the numbers for previous commissions, and HCFA should produce them here as well.

<u>Decision</u>

________ Support changes to Medicare commission proposals outlined above

________ Do not support changes to proposals outlined above

________ Discuss

III. Should we support a Social Security commission within the budget legislation?

As noted above, your advisers believe that we should initially focus our long-term entitlement efforts on Social Security. Although it will not be easy to obtain, true Social Security reform would ease the burden from expected increases in the elderly dependency ratio over the next several decades, and would represent a substantial and lasting achievement of your second term. Regardless of the process, *the Administration would need to spend much of next year -- perhaps starting as early as this fall -- educating the American public and reaching out across the political spectrum to build support for reform.* Historically, a short-term crisis has been necessary for change. (Scholars argue, for example, that the success of the 1983 Greenspan commission was due in large part to the imminent exhaustion of the Trust Fund.) We do not face such a short-term crisis now, making it more difficult to motivate reform. <u>Your challenge would be to motivate the nation to sensibly address and protect one of our most successful programs -- so we could avoid dealing with it in a more disruptive crisis environment later.</u> Public understanding of these issues – though still inadequate – is far greater than it has been before. And early action would permit time to implement changes gradually -- and slowly phased-in changes may be more feasible than sudden ones.

The immediate question before us is whether creating a bipartisan Social Security commission in reconciliation will help our chances for achieving long-term reform. Some think the best way to proceed on Social Security is to include a commission in the budget legislation. Others think that we should take more time before pushing for a commission, so that we can more carefully consider our options. Then if we decide that we want a commission later, we could always create one by executive order (as with the Greenspan commission in the early 1980's) or by a separate statute.

Option 1: Try to negotiate a bipartisan Social Security commission in the budget legislation

Under the first option, we would engage the Republicans immediately to create a bipartisan Social Security commission within the omnibus budget legislation. The goal would be to make the commission <u>credible and specific</u>: It would be charged with issuing its recommendations within a relatively short time period, perhaps by next summer.

- Under one approach, the commission's membership could include all key policy players from the beginning. This approach would facilitate rapid implementation of proposals.

- An alternative approach would have the commission represent a broader array of relevant groups: older Americans, younger Americans, the unions, corporate leaders, etc. The commission's proceedings would then be used as part of our public education effort.

Following the commission's report, we could hold a smaller high-level negotiating process or look to another process -- perhaps including announcing our own proposals -- to implement reform.

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Option 2: Do not create a Social Security commission within the budget legislation -- instead act later, either with or without a commission

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Pros and cons of including a Social Security commission in the budget legislation

<u>Pros</u>

- It dissipates some of the focus away from a Medicare commission, maintaining momentum behind Social Security reform.
- You would clearly signal your commitment to Social Security reform.
- Secretary Rubin and John Hilley feel that we have a short window of opportunity to engage in a bipartisan process, and that opportunity could be lost if we wait to analyze

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- It may not make sense to create a commission before we have carefully explored the best strategy for achieving reform.

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Decision

________ Create Social Security commission within budget legislation

________ Do not create Social Security commission within budget legislation to allow more time to consider strategy

________ Discuss

Action

We will be convening an NEC inter-agency process with your budget team, HHS, DPC, and others appropriate to consider both the strategy and substance of Medicare and Social Security reforms. I will talk with Erskine about how best to design a process for ensuring that we maintain the appropriate degree of confidentiality while still benefitting from the insights of relevant agencies and officials.

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THE WHITE HOUSE

WASHINGTON

CLOSE HOLD
July 3, 1997

MEMORANDUM TO THE PRESIDENT

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As you know, our original game plan on long-term entitlement reform was first to pass the balanced budget agreement and then to turn our attention to the longer-run challenges. But we no longer have the luxury of waiting until after the budget agreement is implemented: both the House and Senate reconciliation bills set up Medicare commissions. We must therefore decide immediately whether to accept a commission on long-term Medicare reform. We must also decide whether we want to set up a commission on Social Security -- probably separately from the Medicare commission -- within the budget legislation.

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I. Where should we initially focus our efforts on long-term entitlement reform?

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Decision

________ Put initial emphasis on Social Security reform

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II. How should we respond to the Medicare commission proposals?

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For example, our strategy could involve holding our own series of public education events, while reaching out to prominent Republicans like Bob Dole or Warren Rudman. It could include a series of regional public hearings. And it could include a commission created by executive order, or one created by statute. There are many possibilities, and with more time we could think through which ones are most promising. After we reached internal consensus on the right approach, we would be able to present a coherent, unified front and would be more likely to achieve success. And after we evaluate our options, it may turn out that we do not even need a commission: Frank Raines points out that President Carter was able to reform the Social Security system without one.

Pros and cons of including a Social Security commission in the budget legislation

Pros

- It dissipates some of the focus away from a Medicare commission, maintaining momentum behind Social Security reform.
- You would clearly signal your commitment to Social Security reform.
- Secretary Rubin and John Hilley feel that we have a short window of opportunity to engage in a bipartisan process, and that opportunity could be lost if we wait to analyze

our options further.

Cons

- It may not make sense to create a commission before we have carefully explored the best strategy for achieving reform.

  -- Moving now would not allow us time to consider our options and to consult with the Republican and Democratic leadership, Senator Moynihan, the AARP, and others on how best to proceed.

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Decision

________ Create Social Security commission within budget legislation

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________ Discuss

Action

We will be convening an NEC inter-agency process with your budget team, HHS, DPC, and others appropriate to consider both the strategy and substance of Medicare and Social Security reforms. I will talk with Erskine about how best to design a process for ensuring that we maintain the appropriate degree of confidentiality while still benefitting from the insights of relevant agencies and officials.

If you want to create a Social Security commission within the budget legislation, we will hold an expedited process to present you with options on how that commission should be structured.

225290

Changed

THE WHITE HOUSE

WASHINGTON

July 4, 1997

MR. PRESIDENT:

Attached is a detailed decision memo from Gene Sperling. He asks for your guidance on three related issues related to long-term entitlement reform: 1) whether to focus our efforts on Medicare or Social Security; 2) how do we shape the Medicare Commission that we will probably not be able to remove from the House and Senate reconciliation bills; and 3) should we support the creation of a Social Security Commission now, or wait.

Gene references a Medicare memo from Chris Jennings that explains why long-term Medicare reform is difficult. We have included Chris' memo in this folder.

Gene would like you to act upon this prior to your departure as the budget team will likely have to broach some of these issues with the Congressional leadership early next week.

Phil Caplan PM

225290

THE WHITE HOUSE

WASHINGTON

'97 JUL 3 P2:34

CLOSE HOLD
July 3, 1997

MEMORANDUM TO THE PRESIDENT

FROM: **GENE SPERLING**

SUBJECT: **Long-term entitlement reform**

As you know, our original game plan on long-term entitlement reform was first to pass the balanced budget agreement and then to turn our attention to the longer-run challenges. But we no longer have the luxury of waiting until after the budget agreement is implemented: both the House and Senate reconciliation bills set up Medicare commissions. Even if we preferred not to have a Medicare commission, we are unlikely to be able to remove it from the final reconciliation package. We should, however, be able to influence its structure and focus. We must therefore decide immediately how to shape the Medicare commission into a form most consistent with our objectives. We must also decide whether we want to set up a commission on Social Security -- probably separately from the Medicare commission -- within the budget legislation.

The purpose of this memorandum is to explore three related questions and to give you an opportunity to provide us with your guidance on these questions. First, should our long-term entitlement strategy put more priority on initial action on Social Security reform or Medicare reform? Second, even if we believe that our best strategy is to focus initially on Social Security, how should we try to change the congressional proposals to ensure that the Medicare commission neither interferes with our efforts on Social Security nor produces problems for Medicare? Third, should we support the creation of a Social Security commission now, or should we allow ourselves more time to analyze the best way to proceed?

I. Where should we initially focus our efforts on long-term entitlement reform?

A first step in addressing our immediate concerns is that you must decide where to place our initial emphasis in long-term entitlement reform. Senator Lott and other Hill leaders have indicated that they want to tackle long-term Medicare reform first. *But your economic and health advisers believe that we should concentrate our initial political capital primarily on Social Security.* The basic argument is that the various options for tackling Social Security are – at least by comparison with Medicare – well-researched and relatively well-understood. Our understanding of how to address the long-term solvency of Medicare is limited. Indeed, your four top health advisers -- Donna Shalala, Chris Jennings, Bruce Vladeck, and Nancy-Ann Min -- believe that the budget agreement embodies most of the obvious steps in reforming Medicare, and that we need much more analysis before considering which additional long-term policies are sensible. Even new proposals such as raising the eligibility age from 65 to 67 and introducing a home health care co-payment will have only a small impact over the long run. Medicare combines Social Security's demographic challenges with those posed by a health care delivery system characterized by generally rising health costs per beneficiary but much uncertainty over the dynamic evolution of those costs, making effective reform particularly complicated.

Chris Jennings will be submitting a separate memorandum to you explaining why long-term Medicare reform is difficult. Nonetheless, in deciding whether to pursue Social Security reform first, you should remember that such a strategy would be complicated because Senator Lott and other Republican Hill leaders favor addressing Medicare first.

Decision

________ Put initial emphasis on Social Security reform

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________ Discuss

II. How should we respond to the Medicare commission proposals?

While you obviously have the option of opposing a Medicare commission in reconciliation, we believe that it is basically a done deal, and our focus should be on how to fix it to fit our needs. If you agree that we should focus our efforts on Social Security first, it is important that a Medicare commission not hinder or undermine that objective. For example, an over-hyped commission on Medicare with key officials from both sides and an early reporting date could divert attention away from Social Security reform. It could also lead to ill-conceived and possibly harmful recommendations for Medicare.

Under both the House and Senate plans, the commission would comprise 15 members (eight Republicans and seven Democrats): six (four Republicans and two Democrats) chosen by the Senate Majority Leader in consultation with the Senate minority leader, six (four Republicans and two Democrats) chosen by the Speaker in consultation with the House minority leader, and three Administration representatives. Under the House bill, you are not granted any discretion in choosing your representatives, who would be the Secretary of Treasury, the Secretary of Labor, and the Secretary of HHS. Thus, under the House bill, the Hill leadership could choose their own representatives, which provides distance from controversial decisions, while you would be forced to put three Cabinet secretaries on the commission. Unlike almost all previous commissions, neither the House nor the Senate proposal would give you the right to choose the chair. The reporting date for the commission would be May 1, 1999 under the House bill and one year after passage of the act -- implying a likely deadline of August 1998 -- under the Senate bill.

You could of course oppose the creation of any Medicare commission. However, your advisers would be concerned that opposition to a Medicare commission may be incorrectly viewed as indicating a lack of interest on our part in tackling entitlement reform. John Hilley believes that the Medicare commission will survive in conference regardless of whether we oppose it.

Instead of opposing a Medicare commission, we could try to ensure that any such commission is not over-hyped, forced to follow a face-track decision-making process leading to an up-or-down vote on a package, or in other ways crowds out your ability to put your initial focus on Social Security. There is enough uncertainty over the substance of Medicare reform, even among your top health advisers, that an intelligent analysis of the issues by a commission could prove extremely beneficial. A commission comprising serious, top-flight people could thus advance the cause of Medicare reform by illuminating possible options, much like the Gramlich commission did for Social Security. To ensure that a Medicare commission is beneficial and does not detract from Social Security reform, we would recommend several changes to the congressional proposals:

- **Membership.** We should not be required to name top Administration officials to the commission, which would preferably also not include Senators and Representatives. If its membership includes top policy-makers, the commission may be constrained by possibly premature policy statements and would seem unlikely to engage in the type of wide-ranging analysis most beneficial on the Medicare front. A commission comprising outside specialists and academics seems more auspicious. As mentioned above, the House version currently appoints to the commission the Secretaries of Treasury, Health and Human Services, and Labor, but grants flexibility to the congressional leadership over appointments. We could fight to remove the Cabinet members from the commission and provide you with full discretion over your appointments.

- **Party balance.** We should also insist on a truly bipartisan commission, with equal numbers of Republicans and Democrats. The current proposals would have eight Republicans and seven Democrats.

- **Chair.** The chair of the commission could set the tone for the entire exercise. Unlike almost all previous commissions, the congressional proposals do not allow you to appoint the chair of the commission. We could insist that you appoint the chair. As a fall-back, we could ask that the chair be chosen mutually.

- **Consensus voting rules.** We could insist on super-majority (3/5 or 2/3) voting for any of the commission's recommendations -- making it more likely that a diversity of views would be represented in the commission's work. Unfortunately, even super-majority voting may not be able to prevent bad outcomes, given the most likely makeup of the commission. (A super-majority could likely be achieved even if only two of the four congressionally-appointed minority members vote with the majority.)

- **Reporting deadline.** The House proposal includes a May 1, 1999 deadline. The Senate proposal sets a deadline of one year after passage of the act -- implying a likely deadline of August 1998. An August 1998 deadline is likely to be too soon to permit the commission to conduct a careful analysis. And the May 1999 deadline would allow us time to make proposals on Social Security before the Medicare commission reports.

- **Analysis.** The House proposal requires the commission to use CBO rather than HCFA estimates. HCFA has produced the numbers for previous commissions, and HCFA should produce them here as well.

Decision

________ Support changes to Medicare commission proposals outlined above

________ Do not support changes to proposals outlined above

________ Discuss

III. Should we support a Social Security commission within the budget legislation?

As noted above, your advisers believe that we should initially focus our long-term entitlement efforts on Social Security. Although it will not be easy to obtain, true Social Security reform would ease the burden from expected increases in the elderly dependency ratio over the next several decades, and would represent a substantial and lasting achievement of your second term. Regardless of the process, *the Administration would need to spend much of next year -- perhaps starting as early as this fall -- educating the American public and reaching out across the political spectrum to build support for reform.* Historically, a short-term crisis has been necessary for change. (Scholars argue, for example, that the success of the 1983 Greenspan commission was due in large part to the imminent exhaustion of the Trust Fund.) We do not face such a short-term crisis now, making it more difficult to motivate reform. Your challenge would be to motivate the nation to sensibly address and protect one of our most successful programs -- so we could avoid dealing with it in a more disruptive crisis environment later. Public understanding of these issues – though still inadequate – is far greater than it has been before. And early action would permit time to implement changes gradually -- and slowly phased-in changes may be more feasible than sudden ones.

The immediate question before us is whether creating a bipartisan Social Security commission in reconciliation will help our chances for achieving long-term reform. Some think the best way to proceed on Social Security is to include a commission in the budget legislation. Others think that we should take more time before pushing for a commission, so that we can more carefully consider our options. Then if we decide that we want a commission later, we could always create one by executive order (as with the Greenspan commission in the early 1980's) or by a separate statute.

Option 1: Try to negotiate a bipartisan Social Security commission in the budget legislation

Under the first option, we would engage the Republicans immediately to create a bipartisan Social Security commission within the omnibus budget legislation. The goal would be to make the commission credible and specific: It would be charged with issuing its recommendations within a relatively short time period, perhaps by next summer.

- Under one approach, the commission's membership could include all key policy players from the beginning. This approach would facilitate rapid implementation of proposals.

- An alternative approach would have the commission represent a broader array of relevant groups: older Americans, younger Americans, the unions, corporate leaders, etc. The commission's proceedings would then be used as part of our public education effort.

Following the commission's report, we could hold a smaller high-level negotiating process or look to another process -- perhaps including announcing our own proposals -- to implement reform.

While a commission was undertaking its work, an inter-agency team within the Administration would put together our own proposals. The Administration would then work with the commission and the Hill to reach consensus on an acceptable package that would carry bipartisan support, and to translate the commission' s proposals into legislation.

John Hilley wanted to emphasize that even if we try to create a Social Security commission in the budget reconciliation legislation, we may not succeed. Senator Lott and other Republican leaders want to focus initial efforts on Medicare instead.

Option 2: Do not create a Social Security commission within the budget legislation – instead act later, either with or without a commission

The alternative is not to create a commission within the budget legislation, but rather to engage with the Republicans later -- either with or without a commission. The logic is that we should not create a bipartisan process before we have fully developed our own strategy for Social Security reform and considered what bipartisan processes would best advance that strategy.

For example, our strategy could involve holding our own series of public education events, while reaching out to prominent Republicans like Bob Dole or Warren Rudman. It could include a series of regional public hearings. And it could include a commission created by executive order, or one created by statute. There are many possibilities, and with more time we could think through which ones are most promising. After we reached internal consensus on the right approach, we would be able to present a coherent, unified front and would be more likely to achieve success. And after we evaluate our options, it may turn out that we do not even need a commission: Frank Raines points out that President Carter was able to reform the Social Security system without one.

Pros and cons of including a Social Security commission in the budget legislation

Pros

- It dissipates some of the focus away from a Medicare commission, maintaining momentum behind Social Security reform.

- You would clearly signal your commitment to Social Security reform.

- Secretary Rubin and John Hilley feel that we have a short window of opportunity to engage in a bipartisan process, and that opportunity could be lost if we wait to analyze our options further.

Cons

- It may not make sense to create a commission before we have carefully explored the best strategy for achieving reform.

  -- Moving now would not allow us time to consider our options and to consult with the Republican and Democratic leadership, Senator Moynihan, the AARP, and others on how best to proceed.

- Given that Senator Lott and other Hill leaders want to focus initially on Medicare, we may not even succeed in getting a Social Security commission into the budget legislation.

- Some are not sure that a commission is beneficial or necessary for effecting reform.

Decision

________ Create Social Security commission within budget legislation

________ Do not create Social Security commission within budget legislation to allow more time to consider strategy

________ Discuss

Action

We will be convening an NEC inter-agency process with your budget team, HHS, DPC, and others appropriate to consider both the strategy and substance of Medicare and Social Security reforms. I will talk with Erskine about how best to design a process for ensuring that we maintain the appropriate degree of confidentiality while still benefitting from the insights of relevant agencies and officials.

If you want to create a Social Security commission within the budget legislation, we will hold an expedited process to present you with options on how that commission should be structured.