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OA/ID Number:	10100
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Folder Title:
Budget: State of the Union Address, January 1996

Stack:	Row:	Section:	Shelf:	Position:
S	20	3	1	1

Name	Date	
Karl Racine	10/2/95	Counsel

F

State of Union

Memo

TO: ALICIA MUNNELL

FROM: RAY PRINCE

SUBJECT: UPDATE ON BROWNFIELDS

DATE: Feb 1, 1996

I understand from Brad Campbell, CEQ, that three changes are under discussion with the Senate Environment Committee regarding brownfields which are an outgrowth of comments made by the President in his State of the Union Address.

- Tax incentives to cleanup brownfields in Empowerment Zones and Enterprise Zones
- Lender liability protection
- Perspective purchaser agreements

Depending on their provisions, it is possible that these three proposals in combination might have the effect of enabling perspective purchasers to use potential NPL brownfields as collateral for development loans.

There is a Principals meeting next week concerning these proposals with special attention to EPA-Treasury discussions about tax incentives. I think this may be worth your attending. I have put in a call to Brad to get the exact time and to see if I can get any more information.

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

1
State of Union

January 30, 1996

TO: ALICIA MUNNELL

FROM: RAY PRINCE RP

SUBJECT: President's Comments in State of the Union Message on Incentives to Clean up Brownfields

The White House is considering a proposal to allow purchasers of brownfield sites other than those on the Superfund NPL list or that require asbestos remediation to either expense, or take some form of accelerated depreciation on, the costs of clean up other than for equipment. Some sites with leaking underground storage tanks that are subject to the provisions of RCRA, for example, might qualify.

Some earlier proposals like this, such as Senator Liebermann's, would have been restricted application of this tax provision to sites within empowerment zones. The White House is apparently considering a proposal that would allow a wider, but as yet undetermined, range of urban sites to qualify.

Mark Mazur spoke to Guzy at EPA on Friday and pointed out to him that no changes in liability are contemplated. Rather, the proposal is an extension of the tax treatment to purchasers now afforded current owners who engaged in clean up activities.

It is worth noting, however, that this change in the tax code could reduce the present value of clean up costs and as well as revenues to the Treasury in the short run. Whether this constitutes a weakening of the polluter pays principle is not clear since revenue to the Treasury over a more extended period of time could conceivably increase especially if this provision were to lead to a greater number of sites being developed.

It should also be noted that this proposal does not address the potential barrier to development from restricting EPA exemptions from Superfund requirements at certain NPL brownfields to current owners. This restriction could, for example, cause problems if developers are unable to obtain outside financing because they cannot use brownfields as collateral.

Attachment

cc: MT, MM

DRAFT **DRAFT**

TO: GARY GUZY

FROM: ALICIA MUNNELL

SUBJECT: PRESIDENT'S COMMENTS IN STATE OF THE UNION MESSAGE ON INCENTIVES TO CLEAN UP BROWNFIELDS

The White House is considering a proposal to allow purchasers of brownfield sites other than those on the Superfund NPL list or that require asbestos remediation to either expense, or take some form of accelerated depreciation on, the costs of clean up other than for equipment. Some sites with leaking underground storage tanks that are subject to the provisions of RCRA, for example, might qualify.

I understand that some earlier proposals like this would have restricted application to sites within empowerment zones. The White House is apparently considering a proposal that would allow a wider, but as yet undetermined, range of urban sites to qualify.

Furthermore, it is my understanding that no changes in liability are contemplated by the White House. Rather, the proposal is an extension of the tax treatment now afforded current owners who engaged in clean up activities to purchasers who do the same.

F

State of Union

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

THE CHAIRMAN

January 22, 1996

MEMORANDUM FOR DON BAER

FROM: JOE STIGLITZ JES

SUBJECT: Superfund Statement in the State of the Union

The CEA has concerns with the statement on p. 7 about letting "polluters off the hook." The issue of how to handle retroactive liability under Superfund has been a contentious one within the Administration. After months of debate in 1994, the agencies reached a compromise, which entailed some degree of relief for the polluters--albeit paid for by a tax on the insurance industry. All parts of the Administration supported that compromise throughout its 1995 legislative life. The strong "polluter-pays" language seems inconsistent with the compromise that was worked out with such great pains. As currently phrased, the State-of-the-Union statement is a red flag in the face of all the economic agencies, which will open up old arguments and make it more difficult to reach agreement on Superfund reform in the future.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

State of Union

January 22, 1996

MEMORANDUM FOR DON BAER

FROM: JOSEPH STIGLITZ

SUBJECT: State of Union - January 21 Draft

Page 1, paragraph 4. This sentence should read "Our economy is strong, with the lowest combined rate..." The reason is that the unemployment rate was lower than the current level in 1988.

Page 3, last paragraph. In fact business has created 7.84 million jobs since January 1993. Therefore you might want to say "almost 8 million" instead of "over 7 million."

Page 4, paragraph 4. I think that the 20 million beneficiaries of the Earned Income Tax Credit consists of 14 million families and 6 million single individuals. You should check with Treasury.

State of the Union

Memorandum

To: Joseph Stiglitz
Alicia Munnell
Martin Baily
Mark Mazur
Louise Sheiner
From: Tom Kane
Re: Higher Education Aid Proposals in the State of the Union Speech
Date: January 24, 1995

In the State of the Union speech, the President proposed two major initiatives in higher education: increasing funding for the Federal Work Study program by 50 percent and providing $1000 scholarships to the top 5 percent of each high school class in the country. The proposals are likely to receive only a lukewarm reception from the higher education policy community. We should anticipate the following reactions:

Federal Work Study

FWS pays 75 percent of the wages of eligible college students working for non-profit organizations (usually the college itself) and 50 percent of wages for for-profit institutions. The primary justification for the proposal is that it is consistent with the theme of "personal responsibility."

- o However, loan programs are also consistent with "personal responsibility" and they are much less costly. Including default and interest subsidy costs, a dollar of loan aid costs the federal government on the order of 15 cents, instead of the 75 cents under the Federal Work Study program. *Per dollar of aid, the FWS program costs the federal government roughly 5 times as much as the loan program.*

- o The FWS program also incurs the additional administrative cost of finding work for eligible students. Schools can spend up to 5 percent of the program costs simply to find work for students.

- o The 75 percent federal wage subsidy encourages schools to find "make-work" jobs for students. A large expansion of the work-study program may simply make it even more difficult for schools to find worthwhile employment for students in the program.

- o It is not clear that it is an efficient use of students' time to be working while in school at low wages rather than devoting themselves full-time to their studies and paying off their loans later when their earnings potential has been enhanced. If a student had to work a certain number of hours to pay their debt to the federal government, they could presumably do so more quickly at their higher wage level after college.

The proposal would cost approximately $360 million.

Merit Scholarships to the Top 5 Percent of Each High School Class:
More than 90 percent of those in the top 5 percent of their high school class of 1980 attended college. Therefore, a very large share of the proposed $1000 scholarships for students in the top 5 percent of their class will simply be going to youth who would have attended college anyway. Very few youth will be induced to attend college by the offer of aid. At a time when the gaps in enrollment rates between high and low-income youth and between blacks and whites have widened, this does not seem to be a prudent use of our resources.

On a more positive note, the program may increase students' incentives to perform well in high school and, therefore, may yield increases in high school student achievement. However, this would be true only if the merit scholarships are not offset by reduced institutional merit-based aid.

The merit aid proposal would cost approximately $125 million.

Possible future directions for postsecondary aid policy:

1. Improving access to higher education need not cost much money. Through the Stafford Loan and Pell Grant programs, we already provide many of the resources necessary for financing higher education. However, given the complexities of financial aid applications, many parents and students seem to have a difficult time anticipating just how much aid they will receive.

   We could achieve a significant improvement in the program, simply by consoldating existing programs and making a clear statement that anyone wanting to go to college could expect a specific amount of financial aid, say $4000 per year, with the share of loans and grants being dependent upon a family's resources. A clear guarantee would resolve parents' anxiety and lift the unnecessary uncertainty surrounding the financial aid process, at no additional cost to the federal government.

2. The federal government could also extend to the states the option of "buying into" the federal Income Contingent Loan program and increasing the loan limits for the students in their state. For instance, if the state of Alabama were willing to reimburse the federal government for the cost of providing the guarantee and administering the income contingent loan programs, students from Alabama could be granted additional borrowing authority. Currently, the most a dependent undergraduate student can borrow from the federal loan programs during their first year in college is $2625. (Parents can borrow more, but payments begin

immediately.) The loan limit ould be sufficient to cover tuition expenses at only 60 percent of public 4-year institutions-- even ignoring living costs.

The goal of the policy would be to allow states to convert some of the $40-45 billion they currently spend in direct appropriations to institutions into income contingent loans. Since the states would find it difficult to run an income contingent loan program themselves, such a program would leave students, states, colleges and the federal government all better off.

3. The debate over the cost of the Direct Lending program boils down to whether the federal government can contract out the servicing of student loans at a lower cost than the fixed subsidy it pays to banks and guaranty agencies to do so. The debate is very difficult to resolve given that few of those with direct loans have entered repayment. As an alternative to paying banks 3.15 points over the 90-day T-bill to carry the loans, the federal government could auction off the rights to provide loans to students subject to the federal guarantee. Although it may have been necessary to offer a guaranteed fee to banks at the beginning of the program, banks have now had sufficient experience with the program to know what their costs are.