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

October 26, 1995
(House)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 2491, Budget Reconciliation Act of 1995
(Kasich (R) OH)

If this budget reconciliation legislation -- with its extreme spending cuts and huge tax cuts flowing disproportionately to people who do not need them -- were sent to the President in its current form, he would veto it. The reasons are set forth in the attached letter of October 18 from Alice M. Rivlin, Director of the Office of Management and Budget, to Chairmen Kasich and Solomon. Additional Administration concerns with H.R. 2517 are also attached.

ADMINISTRATION CONCERNS WITH MODIFICATIONS TO THE HOUSE RECONCILIATION BILL CONTAINED IN HR 2517

HOUSE AGRICULTURE

The Administration is concerned with the new dairy provisions of HR 2517. The provisions would end both the milk price support program and all Federal milk marketing orders during FY 1996. Marketing orders enable dairy producers to share the burden and benefit of supplying the higher value but highly seasonal fluid milk market, thereby helping to ensure reliable fluid supplies for consumers. Without Federal marketing orders and price support, producers would face steep declines in farm income.

HOUSE COMMERCE

Medicaid

HR 2517 includes changes to the income and asset protections in the House bill. These modest improvements, however, will only help the much smaller group of low-income people who are fortunate enough to receive health coverage under the House block grant.

Furthermore, the Administration continues to oppose the elimination of Federal nursing home quality standards, even with the addition, in HR 2715, of loosely-defined State quality standards. Weak State-based assurances are an inadequate substitute for current law.

Medicare

Despite marginal changes, Medicare provisions of the reconciliation bill remain unacceptable to the administration.

HOUSE ECONOMIC AND EDUCATIONAL OPPORTUNITIES

The Administration supports the decision to drop the repeal of the Davis-Bacon Act. However, it continues to strongly oppose the repeal of the Service Contract Act, which remains in the bill.

HOUSE GOVERNMENT REFORM AND OVERSIGHT

Federal Government Employees

The Administration supports the decision to not include a proposal to prohibit the Office of Personnel Management from requiring certain benefits or levels of coverage of plans that participate in the Federal Employee Health Benefits (FEHB) program. However, other proposals still raise a number of concerns, as expressed in Director Rivlin's October 18th letter.

HOUSE INTERNATIONAL RELATIONS

Cuban Liberty and Democratic Solidarity Act

HR 2715 includes language identical to HR 927, the Cuban Liberty and Solidarity Act, as passed by the House on September 21. The Administration expressed its strong opposition to the bill in a statement to the House on September 20th. The bill would hinder the Administration's ability to assist in the transition to a democratic regime in Cuba. It would permit U.S. citizens seeking compensation for the expropriation of property to sue foreign governmental entities and citizens, causing serious foreign policy problems.

HOUSE RESOURCES

The Administration supports the decision to drop the controversial National Park Closure Commission and a provision capping Federal royalty rates for Trona (Soda Ash) from the bill.

HOUSE WAYS AND MEANS

The Administration objects to language in HR 2517 that would effectively require taxpayers to calculate their income tax liabilities twice. The double calculation would impose significant burdens and complexity on taxpayers.

The Administration is pleased that the objectional provisions related to neutral cost recovery were deleted.

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

THE DIRECTOR

October 18, 1995

Honorable Gerald B. H. Solomon
Chairman
Committee on Rules
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to transmit the Administration's views on the actions that the House will take to comply with budget reconciliation instructions.

You should have no doubt about the President's position: If reconciliation legislation were sent to him with the extreme spending cuts and huge tax cuts called for in the budget resolution, he would veto the bill. The President has stressed the importance of finding common ground with Congress on a budget plan that will best serve the interests of the American people.

As you know, the President shares the goal with congressional leaders of balancing the budget. But, as the President and his senior advisors have repeatedly noted, the Administration has profound differences with the overall approach that Congress has adopted to reach that goal:

- **The President's plan:** The plan, which the President announced in June, would protect Medicare until 2006 and retain Medicaid as an entitlement; invest in education and training and other priorities; and provide for a targeted tax cut to help middle-income Americans raise their children, save for the future, and pay for postsecondary education.

  To reach balance within 10 years, the President would eliminate wasteful spending, streamline programs, and end unneeded subsidies; take the first, serious steps toward health care reform; reform welfare to reward work; cut non-defense discretionary spending (other than the President's investments) 22 percent in real terms in 2002; and target tax relief to those who really need it.

- **The Republican plan:** The Republican plan -- as reflected in the committee's reconciliation provisions and earlier congressional budget actions -- would reach balance in seven years, and, at the same time, provide a huge tax cut whose benefits would flow disproportionately to those who do not need them.

To reach balance under those circumstances, the Republican plan would cut deeply into such mandatory programs as Medicare, Medicaid, student loans, food stamps, and foster care, and would raise taxes on millions of working families by slashing the Earned Income Tax Credit (EITC). By extending the discretionary caps at GOP-proposed levels, the Republican plan would force deep cuts in virtually all discretionary programs, including education and training, science and technology, and other investments that would help raise average living standards.

The President believes strongly that, while his approach reflects the common ground that Americans share, the Republican plan reflects an extreme and unwise approach that will hurt average Americans and help special interests. He has repeatedly urged Congress to work with him on a more reasonable path that will help raise average living standards in the future.

The House Republican plan unduly burdens low- and middle-income Americans in order to finance tax cuts for the wealthy. In our recent analysis, we found that the proposed tax breaks for the wealthiest 5 percent of households would give them annual benefits of $37 billion -- almost as much as the plan cuts income and health coverage for all families with children. In fact, the 20 percent lowest-income families with children will each lose an average of over $1,500 in income and nearly $1,700 in health benefits. This is not shared sacrifice.

The Republican majority, however, has shown little inclination to move to a more responsible path. The Ways and Means and Commerce Committees, for instance, have passed deep, unwarranted cuts in Medicare that would raise costs for beneficiaries and sharply cut payments to providers, jeopardizing access to, and the quality of, care. In addition, Commerce would convert Medicaid into a block grant and limit its annual growth. The Urban Institute estimates that even if states could absorb half of the cuts by cutting services and provider payments, they would still have to drop coverage for 8.8 million people in fiscal 2002, including 6.3 million adults and children in families, 900,000 seniors, and 1.4 million people with disabilities. Furthermore, the Commerce Committee would end standards needed to protect residents of nursing homes, eliminate spousal impoverishment protection, and not ensure coverage for even the most vulnerable Americans -- poor children under 18.

The Republican tax plan hurts working Americans. It would raise taxes on 14.5 million working families by cutting the Earned Income Tax Credit (EITC). It would cut foster care and other child programs and turn them into block grants, potentially denying benefits to needy children. And it would make unwise changes to pension fund asset reversions -- making it easy for companies to withdraw "excess" pension assets for their own use -- threatening the retirement benefits of workers and increasing the exposure of the Pension Benefit Guaranty Corporation, which guarantees these benefits.

We understand that the Republican majority will place the House-passed welfare reform bill in the reconciliation bill. When added to food program and EITC cuts, the total low-income cuts are excessive. For welfare reform to succeed, it must save money by moving people from welfare to work -- not by cutting people off, which will cost taxpayers much more down the road, or by merely shifting costs to the states. The cost of excessive program cuts in human terms -- to working families, families with small children, low-income immigrants, disabled children, and the elderly receiving Supplemental Security Income -- would be grave. The Administration proposes a more acceptable level of cuts, coupled with strong programmatic reforms.

Other committees are making unwise cuts or other changes in programs that affect millions of students and their families, children, the poor of all ages, and the environment.

The Economic and Educational Opportunities Committee would raise college loan costs to middle- and low-income students and parents. In particular, the Committee would eliminate the successful Direct Student Loan program, thereby eliminating the 1,400 schools now participating in the program and more schools that have already applied to participate next year. These actions hurt middle- and low-income families, make the student loan programs less efficient, perpetuate unnecessary red tape and burden on schools, and deny to students and schools the free-market choice of guaranteed or direct loans.

As you know, the House Agriculture Committee did not meet its reconciliation instructions, demonstrating that the proposed level of cuts is too deep. At the same time, the Administration has serious concerns with the House Republican leadership's "Freedom to Farm" proposal to reach the savings target, particularly its effect on the federal safety net for family-sized farms.

The House proposal to dismantle the Commerce Department and create more units of government does not help to reinvent government. Quite the contrary, it will create more government with less efficiency. Commerce houses some of the President's highest-priority technology programs, which ensure the nation's future competitiveness and job growth, and has a strong record of helping businesses, workers, and communities to build a stronger economy. The Administration also opposes another aspect of the Commerce dismantlement -- the artificial consolidation of now-independent trade promotion and financing agencies into a large trade bureaucracy.

The House Resources Committee would open the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling, threatening a rare, pristine ecosystem, in hopes of generating $1.3 billion in federal revenues -- a revenue estimate based on wishful thinking and outdated analysis. Moreover, the potential for long-term damage to this biologically-rich wilderness is simply too great. The Administration, instead, supports efforts to protect the refuge's coastal plain permanently.

Already, the President has made it clear that he will veto any reconciliation bill that includes Medicare and Medicaid cuts of the size that the budget resolution calls for. Also, as I wrote to the House Resources Committee on September 21, the President will veto any reconciliation bill that opens ANWR to oil and gas drilling. But our serious concerns do not end with the specific veto threats that we have issued. For the wide array of reasons discussed in this letter, this bill remains unacceptable to the Administration and to the American people.

This nation was founded on the dream that all families should be given the opportunity to improve their lives and the future of their children. The Republican plan undermines that dream and promotes the wrong set of priorities for the nation.

Attached is a more detailed review of our concerns.

Although we have major differences with Congress at this point, we hope to work with you to find a common path to balance the budget in a way that will improve the standard of living of all Americans.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

Attachments

Identical letter sent to Honorable John Joseph Moakley,
Honorable John R. Kasich, and Honorable Martin O. Sabo

CONCERNS WITH HOUSE RECONCILIATION BILL

HOUSE AGRICULTURE

Reform Package

The Committee's inability to meet its reconciliation target highlights how deep the cuts would be and the serious problems of the "Freedom to Farm" proposal, which the House majority likely will include in the rule. The "Freedom to Farm" proposal would effectively sever the safety net that farm programs now provide in stabilizing farm income. Rather than allow federal payments to adjust to changes in market conditions, as they now do, "Freedom to Farm" would set fixed annual payments that producers would receive, regardless of market conditions. This would have two negative results. First, farmers would receive payments even if market prices are high. Such a windfall has led opponents to label "Freedom to Farm" as "welfare for farmers," which would come at the expense of taxpayers who should not have to subsidize farmers when the market is strong. Second, if market prices fall, federal payments would not rise, as they do under current law. Family farmers would have to absorb the lost income, creating a "ripple effect" of lost income for rural communities.

The House proposal would strike the requirement that participants have crop insurance -- a major, recently-enacted reform. Combined with cuts in the farm safety net, this proposal likely would raise pressure to return to budget-busting, ad hoc disaster payments. The proposal also would arbitrarily limit benefits to current participants. Similarly, the proposal would limit the Conservation Reserve Program (CRP) -- the largest voluntary conservation assistance program available to farm producers -- to existing contract holders. Even when current CRP participants opt out, USDA could not replace the lost conservation acres with more environmentally significant ones, as the Administration proposes.

Food Stamps

The House food stamp cuts are extreme. Over half of all recipients are children, over a quarter live in households where someone is working, and about seven percent are elderly. The Administration strongly opposes cuts beyond the Senate welfare bill's more reasonable level.

The Administration strongly opposes the food stamp block grant option, especially in light of efforts to create an AFDC block grant; a national nutrition program helps to put food on the table for low-income families who may lose their cash assistance. The Senate's food stamps block grant option is considerably worse than the House's, as it allows up to 20 percent of the block grant to go for non-food purposes and lacks the House's requirement that states have an EBT system in place before opting for a block grant. The Administration also strongly opposes the House proposal to place an inflexible ceiling on food stamp spending. If program costs exceed projections -- as could easily occur if the economy weakens in the next few years -- benefits could be cut across-the-board.

Federal nutrition programs have produced measurably better health among the many people who get food assistance. National nutrition standards and a funding mechanism that lets the programs expand to meet greater needs in times of national or regional economic hardship are essential to feasible welfare reform.

Child Nutrition and Women Infants and Children (WIC)

The House welfare bill would combine child nutrition programs into block grants and cut them by about $10 billion over seven years. This action would eliminate national standards that guarantee children access to healthy meals at schools, and preclude an effective response to economic downturns. The Administration strongly opposes the House provision, preferring the Senate plan of preserving the integrity of these key programs that traditionally enjoyed broad bipartisan support.

HOUSE BANKING AND FINANCIAL SERVICES

Community Reinvestment Act (CRA)

The Administration strongly opposes any amendments that would weaken the Community Reinvestment Act (CRA), which requires regulated financial institutions to have a continuing and affirmative obligation to help meet the credit needs of their communities, including low- and moderate-income neighborhoods, consistent with safe and sound operations. In rewriting the CRA regulations, federal banking agencies considered and resolved the problems of the old CRA process; Congress should not amend the Act before we can evaluate how these regulations are working. The Committee would exempt from CRA financial institutions with assets of under $100 million, and permit institutions with assets of under $250 million to self-certify under CRA -- effectively exempting 90 percent of the nation's banks and thrifts from the Act.

Federal Housing Act (FHA) Single-Family Assignment Program

The Administration appreciates the Committee's informal agreement to consider and possibly substitute the proposed alternative to FHA's single-family assignment program -- if CBO scores its savings at or close to those estimated for assignment elimination. The Committee's current provision would eliminate special forbearance for delinquent FHA homeowners.

Currently, FHA must allow up to three years' forbearance for certain homeowners who experience financial hardship. Less than 15 percent of assigned mortgages ever become current, however, and properties lose tremendous value during the extended forbearance period. By eliminating the assignment program, the government would avoid these losses. The proposed alternative -- which also would eliminate the program -- would avoid the losses, but also allow viable FHA homeowners to remain in their homes through times of temporary economic distress, and save money by avoiding foreclosures through the use of loss mitigation tools that the private sector commonly uses.

Banking Insurance Fund (BIF)/Savings Association Insurance Fund (SAIF)

The Administration strongly supports the Committee's action to deal with the financial problems of the Savings Association Insurance Fund (SAIF), which would eliminate the perverse incentives created by a premium differential between SAIF and the Bank Insurance Fund (BIF). The bill accomplishes that through a one-time special assessment on SAIF-insured deposits and by spreading FICO payments pro rata over all FDIC-insured institutions. In addition, the legislation provides for SAIF's merger with BIF, which is essential to assuring that SAIF's structural vulnerabilities cause no further problems. While the Administration supports an ultimate merger of the thrift and bank charters, the difficult issues involved in the charter merger (including tax issues) should not interfere with enactment of a comprehensive solution to SAIF's financial problems.

HOUSE COMMERCE

Medicare

The Administration strongly opposes the magnitude of the proposed Medicare cuts -- $270 billion over seven years. While Republicans say the cuts are needed to "save" the Medicare Part A Trust Fund, only a fraction of the savings actually would go to the Part A trust fund. Most of the cuts -- $140 billion over seven years -- are in Medicare Part B, none of which would strengthen the Part A trust fund. Of the $130 billion in Part A cuts, $36 billion would merely offset the trust fund losses threatened by House Republicans' actions of earlier this year. Therefore, the $270 billion in cuts yield only a net $93.4 billion to strengthen the Part A trust fund and, thus, secure Medicare until 2006. This is the same length of time that the President's proposal would ensure the solvency of Medicare Part A, making clear that the rest of the GOP Medicare cuts are designed to finance the GOP tax cut.

Further, the Republican plan imposes $54 billion in new financial burdens on beneficiaries in the form of higher Medicare Part B premiums. Most of this increase comes from setting the Medicare Part B premium to cover 31.5 percent of program costs. This increase is excessive and does nothing to strengthen the Part A trust fund. In addition, some higher-income Medicare beneficiaries will see their Part B premiums more than triple. The proposal then compounds these direct new burdens on beneficiaries by imposing many hidden cuts that will force them, over time, to pay much more for their health care services.

For example, the GOP's new "MedicarePlus" option actually gives beneficiaries less choice. Though it promises to give beneficiaries free choice between traditional Medicare and all the plan options under MedicarePlus, the legislation applies distinctly uneven rules to Medicare and MedicarePlus, making traditional Medicare much less attractive to providers than MedicarePlus. These incentives, along with a provision that applies the "failsafe" mechanism of more cuts only to the traditional program, would reduce providers' willingness to serve beneficiaries in traditional Medicare. This will restrict beneficiary choice, not enhance it. MedicarePlus, as the bill structured it, also would promote adverse risk selection that could increase costs for the traditional program. The Administration does not support efforts to use Medicare beneficiaries to experiment with untested concepts that could weaken the program.

The MedicarePlus "choice" is also a bad one for beneficiaries because they will lose protection from "balance billing," whereby providers charge beneficiaries more than Medicare approves. Medicare permits no balance billing by hospitals and only limited balance billing by physicians. MedicarePlus plans, however, will widely permit it. Providers in fee-for-service MedicarePlus plans will be able to charge patients whatever they want. The same will be true for patients electing the catastrophic or medical savings account (MSA) plans, and for managed care plans whenever patients receive non-emergency care outside of the plan -- even if the plan authorizes such care. Given the very tight caps that this bill would impose, provider pressures to balance bill will grow. If providers begin to move to MedicarePlus plans to escape balance billing limits, beneficiaries will face the choice of following them and paying more, or remaining in traditional Medicare where fewer doctors and hospitals are able to care for them.

The Administration strongly opposes provisions that would weaken its efforts to combat fraud and abuse. The GOP bill relaxes critical rules that now outlaw kickbacks and require providers to exercise due diligence in submitting accurate and true Medicare claims. These provisions, which CBO has determined will cost Medicare over $1 billion from 1996-2002, could harm the quality of beneficiary care, offset the savings from efforts to fight fraud and abuse elsewhere in the bill, and further burden law enforcement efforts to combat health care fraud and abuse.

Medicaid

The Administration strongly opposes both the magnitude of proposed Medicaid cuts -- which would reduce federal payments to states by $182 billion, or 20 percent, below current law -- and the conversion of Medicaid into a block grant. By 2002, these cuts would amount to a 30 percent reduction below CBO's estimate of the cost to maintain current services. To reach these savings, per capita health care spending growth under Medicaid would have to fall to an average of 1.4 percent a year over the next seven years. By contrast, per capita spending in the private sector is projected to grow by 7.1 percent a year during this period. Consequently, States will have to raise taxes or sharply reduce coverage. The Urban Institute estimates that even if states can absorb half of the proposed cut through greater efficiencies, 8.8 million Americans, including 6.3 million adults and children in families, 900,000 seniors, and 1.4 million people with disabilities, would lose coverage in 2002.

Furthermore, in converting Medicaid into a drastically smaller block grant program, the Committee bill ends the guarantee of coverage on which millions of low-income families have depended. The bill repeals federal protections against spousal impoverishment, which President Reagan joined with congressional Democrats to enact in 1987. Currently, a person may qualify for Medicaid assistance with nursing home care without his or her spouse in the community being forced into poverty; the law protects a basic level of income and assets, including the home and a car, for the community spouse. If the protections are repealed, an elderly woman could be forced to impoverish herself and give up her home or family farm before her husband in a nursing home could qualify for Medicaid assistance.

The bill also repeals protection for low-income Medicare beneficiaries under Medicaid. Currently, these individuals are eligible for Medicaid assistance with their Medicare premiums, deductibles, and other cost sharing. An estimated 5 million Medicare beneficiaries are eligible. The need was so great that congressional Democrats and

Republicans supported creation of the Qualified Medicare Beneficiary (QMB) program. This legislation was signed into law by President Reagan and expanded in a subsequent law signed by President Bush.

The bill repeals federal nursing home quality standards and directs states to adopt whatever standards they choose. With an enormous cut in federal financial assistance, states may not be able to afford to develop and enforce standards to ensure a high quality of care and quality of life.

The Administration is concerned that the Committee bill repeals the Vaccines for Children Program (VFC), a 100 percent federally-funded entitlement for Medicaid-eligible, uninsured, under-insured, and Indian children. Although the bill requires states to cover immunizations for Medicaid-eligible children, thousands of uninsured, under-insured, and Indian children would lose coverage. Further, in converting Medicaid into a drastically reduced block grant, federal funding dedicated to immunizing children would be reduced, threatening our efforts to insure that 90 percent of all children under age 2 are properly immunized for the initial, and most crucial, doses of vaccine.

Privatization of the United States Enrichment Corporation (USEC)

The Administration is pleased that both the House and Senate bills advance prospects for selling the USEC. Generally, the Administration prefers the Senate version, although we oppose Senate provisions that would transfer exclusive rights to gaseous diffusion technology from the Energy Department to USEC. In addition, the Senate treatment of Russian uranium provides a framework to balance antidumping concerns with the national security goal of purchasing Russian high enriched uranium (HEU). But, to effectively implement the HEU deal, the initial limit on using Russian uranium in the U.S. should be raised to 4 million pounds in 1998 (vs. 2 million pounds) and raised by 2 million pounds per year.

Spectrum Auction

The Administration is pleased that the Committee has included legislation to raise funds from spectrum auction, although it views the Senate's spectrum language as preferable to the Committee's. Unlike the Committee's version, the Senate provision provides for the payment (from auction proceeds) of costs that federal agencies bear in migrating from one portion of the telecommunications spectrum to another. This provision could be particularly important for the Departments of Defense and Justice and the Federal Aviation Administration. We should not require agencies to absorb these costs in their discretionary appropriations.

HOUSE ECONOMIC AND EDUCATIONAL OPPORTUNITIES

Davis-Bacon and Service Contract Act Repeal

The Administration strongly opposes the Committee's proposed repeal of the Davis-Bacon Act and the Service Contract Act. Davis-Bacon requires federal contractors to pay locally prevailing wages to workers hired for construction, alteration, or repair of public buildings or public works. The Service Contract Act applies a similar prevailing wage provision for service employees on federal contracts and subcontracts. While the Administration supports reform of Davis-Bacon, outright repeal of it, or the Service Contract Act, would lower the wages of working Americans.

Student Loans

The Committee would get almost 60 percent of its $10.2 billion in savings by cutting assistance to students and parents, eliminating the Federal Direct Student Loan Program, and threatening the delivery and integrity of all student aid.

The President's direct lending program has been a great success, saving money and increasing access to education. Thus, the Administration strongly opposes the Committee's proposal to eliminate this program; it is very popular with the 1,400 institutions already in it because it's easier to administer than the guaranteed loan program and gives students more flexible repayment options, including income-contingent repayment.

The Administration also strongly opposes the Committee's proposed end to the federal subsidy of interest payments that Stafford loan recipients receive during the 6-month "grace period"; these undergraduate students' costs could rise as much as $700. In addition, the Administration strongly opposes the Committee's increase in the PLUS loan interest rate.

The Committee further proposes to cut by 60 percent the funding needed for financial management and the avoidance of fraud and abuse in the guaranteed loan program.

HOUSE GOVERNMENT REFORM AND OVERSIGHT

Dismantling the Department of Commerce

The Administration strongly opposes the proposal to dismantle the Commerce Department, which the House majority has said it plans to include in reconciliation. The proposal ignores the need for long-term job creation, continued investment in a sound technology base, a renewed national export strategy, and environmentally sustainable economic growth. In addition, the Congressional Budget Office estimates that the dismantlement would cost $445 million for purposes of reconciliation, a cost that would prove wasteful and counterproductive.

The Administration also strongly opposes the proposal to create a National Institute of Science and Technology, which would eliminate critical civilian technology programs. Such action is unnecessary and ill-conceived, and jeopardizes the U.S. economy at a time of fierce global competition. The House proposal eliminates the Advanced Technology Program and the Manufacturing Extension Partnership -- programs with proven results in the development and deployment of new technologies. The House proposal also eliminates vital environmental research activities that help guide economically sustainable environmental policies.

The Administration would oppose any plan to place trade promotion and financing agencies under a proposed U.S. trade agency. For example, the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency facilitated over $20 billion in U.S. business in fiscal 1995. Combining these independent and efficient agencies into a large bureaucracy would stifle their focused and responsive approach to helping U.S. exporters. Moreover, ill-conceived budget reductions to these agencies would also crimp U.S. exports.

The Administration opposes the House proposal to transfer, for a year, the Census Bureau to OMB; OMB lacks the staffing and resources to effectively manage the Bureau's extensive programs. The Administration also opposes the transfer of the Bureau of Economic Analysis (BEA) to the Bureau of Labor Statistics, thus separating Census and BEA for at least a year and endangering the quality of the nation's statistics. The proposed reorganization of these highly-integrated bureaus would disturb their effective, integrated functioning.

Civil Service Retirement and Federal Employees Health Benefits (FEHB)

Like the Agriculture Committee, this committee could not pass a reconciliation package. The Administration views the federal employee benefit provisions that the Chairman described in his letter to Budget Chairman Kasich as unfair and unwise. Those provisions would force federal employees to pay more for retirement and health benefits while cutting their retirement benefits. They also would cut employees' benefits at a time when we are reducing the number of federal employees and asking those that remain to provide the American people with a government that works better and costs less.

The Administration opposes the non-germane proposal that would prohibit the Office of Personnel Management from requiring certain benefits or levels of coverage of plans that participate in the FEHB. The proposal, says CBO, produces no government savings and could raise employees' premiums. It also could launch a spiral of competition among insurance plans to attract healthy individuals, leaving those with chronic health problems unable to afford the coverage they need. This is unwise public policy.

HOUSE INTERNATIONAL RELATIONS

Organization of Foreign Affairs Agencies

The Committee's legislation would incorporate, by reference, non-germane House-passed legislation (Division A of H.R. 1561), about which the Administration has repeatedly raised serious objections. It would require eliminating three foreign affairs agencies by combining the Agency for International Development, the United States Information Agency, and the Arms Control and Disarmament Agency with the State Department, creating a mega-bureaucracy that would be unwieldy, costly, and ineffective.

Furthermore, this legislation would significantly impair the President's ability to conduct foreign affairs. The House majority should remove any such legislation from the reconciliation bill prior to final action.

HOUSE JUDICIARY

Patent and Trademark Office (PTO) Fees

The Administration is concerned about the Committee's proposal to extend the patent surcharge fund, and to deny PTO full access to its fees without discretionary appropriations.

Congress has not appropriated the full amount of fee revenues that PTO collects for its own use. This withholding of fees increases patent pendency and delays the deployment of new technology to the marketplace. The President's budget supports the elimination of the patent surcharge fund beginning in fiscal 1999 and the PTO's full access, without appropriation, to all fees.

HOUSE NATIONAL SECURITY

The Administration is pleased that the House chose not to break with our service men and women by changing the method for computing military retirement pay, but instead chose to allow increased sales from the National Defense Stockpile to offset defense mandatory program increases.

HOUSE RESOURCES

Arctic National Wildlife Refuge (ANWR)

As noted above, the President will veto any reconciliation bill that opens the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling. Exploration and development activities would bring physical disturbances to the area, unacceptable risks of oil spills and pollution, and long-term effects that would harm wildlife for decades. Moreover, the estimate that ANWR will generate $1.3 billion in federal revenues from oil and gas leasing is wishful thinking, based on projected oil prices in the year 2000 of above $30 per barrel -- even though the Energy Information Agency predicts prices will only be about $19. The estimate also fails to consider new geological information showing lower recoverable oil estimates and Alaska's claims that its Statehood Act entitles it to 90 percent of all revenues -- not 50 percent, as the estimate assumes.

Sale of Power Marketing Administrations (PMAs)

The Administration applauds the Committee's decision to sell the Alaska Power Administration to current customers. And though the Committee proposed selling the Southeastern PMA (SEPA), the Administration has concerns about the manner in which that sale would occur.

Because the Committee did not propose selling SEPA to its current customers, the sale would not provide effective rate protection and avoid unwarranted rate increases. The Committee also called for the sale of physical facilities now owned by the Army Corps or Engineers (dams, locks, powerhouses, and related real estate) and would exempt the dams from existing environmental laws. The Administration generally does not support selling large multi-purpose facilities, such as large dams, but perhaps could support some such asset sales if they have been thoroughly studied and include terms and conditions that protect the environment and those who benefit from other project uses, such as flood control, navigation, water supply, and recreation.

Hardrock Mining Reform

The Administration is concerned that the Committee's proposal to reform the antiquated 1872 hardrock mining law would, in fact, leave it largely intact. Most notably, the proposal retains the notorious patenting provision whereby the government transfers billions of dollars of publicly-owned minerals at little or no charge to private interests. The proposed "net" royalty on proceeds from minerals production on federal lands has numerous deductions and escape mechanisms, and would raise little if any money to compensate taxpayers or fund the cleanup of abandoned mines that are degrading water supplies and otherwise harming the environment. Moreover, the proposal actually weakens the claim holding fee by creating a number of new ways for claimants to escape the requirement to pay.

National Park Closure Proposal

The Committee included language to set up a commission, similar to the DOD base closure commission, to recommend a list of Interior Department-operated national parks for closure -- a process that, potentially, would dismantle the nation's national parks. Even after the House voted 231-180 against this ill-advised proposal on September 26, the committee included it in the reconciliation package.

Endangered Species Act (ESA)

The Committee proposes to exempt certain federal agency responsibilities to consult with the Interior or Commerce Secretaries on various agency actions likely to affect threatened or endangered species. Such an exemption will weaken and, in some cases remove, agencies' responsibilities to play a role in the conservation of threatened and endangered species. The Administration strongly objects to the broad list of agency actions that this amendment would exempt.

Grazing

The Committee proposes to stop long-needed environmental reforms of grazing practices on Federal lands by gutting regulations that the Interior Department issued after two years of extensive public hearings. Congress should not use the budget process in a backdoor effort to stop the reforms. In addition, the Committee would exempt key rangeland management decision from the National Environmental Policy Act (NEPA), impose an administratively cumbersome and unworkable grazing franchise fee, and increase permit-holders' tenure on the land from 10 to 15 years.

Additional concerns with Resource Committee action:

The Committee has chosen to use the reconciliation bill as a catch-all for a number of bad policies, many of them having little or nothing to do with balancing the budget.

- **National Parks, Forests, and Public Lands Concessions** -- gives concessioners the opportunity to earn performance incentives that would deter competition for concessions contracts, and allows concessioners to continue to accumulate possessory interests in park property;

- **Ward Valley Land Transfer** -- authorizes the unconditional transfer of federal lands for a low level radioactive waste storage site, which the Administration supports in concept, but with no environmental conditions for the transfer;

- **Sale of National Forest Ski Areas** -- requires the sale of land within national forests to existing ski area permit holders, and creates a new formula for determining the fees that ski areas located on forest service land would pay to the federal government;

- **Oil and Gas Royalties** -- includes a number of provisions that will make royalty collection far more difficult and costly for the federal government;

- **Trona (Soda Ash) Royalty Cap** -- limits royalties to a level below similar private land leases;

- **Surveying and Mapping** -- requires contracting out for United States Geological Survey (USGS) services, diverting scarce resources and producing no savings;

- **Sly Park Unit Transfer (CA)** -- exempts, from applicable environmental laws, the transfer of these Central Valley Project (CVP) facilities from federal ownership, costing federal revenues and setting a bad precedent for any future CVP transfer;

- **Central Utah Project (CUP) Prepayment (UT)** -- authorizes a payment that, as now written, does not protect the government's financial interest.

- **Central Valley Project (CVP) - City of Folsom (CA)** -- authorizes the City to receive CVP water at reduced water rates, producing no savings and, in fact, costing federal revenues if the city uses project water; and

- **Territorial Assistance** -- repeals funding for the Commonwealth of the Northern Mariana Islands (CNMI) Covenant and for the Interior Department's territories oversight and technical assistance, preventing the redirection of funding that the Administration proposed and the Senate approved.

HOUSE VETERANS' AFFAIRS

Veterans' Affairs (VA) Medical Care

The Administration is concerned about the Committee's proposal to raise, by 50 percent, the co-payments that certain veterans pay for prescription medication that the VA provides.

HOUSE WAYS AND MEANS

Medicare

Along with the President's strong opposition to the size of the proposed Medicare cuts, the Administration has other serious concerns with the Committee's proposal. For a detailed explanation of its concerns, please see the discussion in the Commerce Committee section of this letter.

Welfare Reform

We understand that the Republican majority will place the House-passed welfare reform bill in the reconciliation bill. If Congress can agree on a bipartisan bill that is tough on work and fair to children, the President will sign real welfare reform into law and the nation will be better for it. But if Congress tries to walk away from our common values with a bill that, like the House bill, is weak on work and tough on children, it will kill welfare reform, and the Administration will continue to pursue welfare reform through waivers, one state at a time, until Congress gets it right.

The Senate-passed version is an significant improvement over the House. It gives states more adequate funding to provide work and child care; requires states to continue their financial commitments; removes mandates such as the family cap and restrictions on teenage mothers; rewards states for moving people to work; preserves vital child nutrition and child protective services; and gives states access to a contingency fund to provide added resources in an economic downturn. If the House majority chooses to include welfare reform bill in reconciliation, it should not only make these very important improvements to the House bill but also build on them in the following ways:

- Require of states a permanent and tighter maintenance of financial effort.

- Provide states greater protection in a serious recession by strengthening the trigger mechanism and increasing the amount of funds in reserve in the Senate contingency grant fund.

- Provide more child care resources; without sufficient child care funding, welfare reform will be an enormous unfunded mandate on states.

Foster Care and Child Protection Services

The Administration strongly opposes cuts and block grants in foster care and child protective services. The House bill would block grant foster care, repeal the 1993 Family Support and Preservation program, and create a discretionary block grant for child protective services. Rather than protect children, the House's changes to foster care and child protective services could put hundreds of thousand of them at increased risk of harm. This is the wrong time to walk away from abused and neglected children and those at risk.

Benefits for Immigrants

Both the House and Senate bills go too far in cutting benefits to legal immigrants, and shifting costs to states with high numbers of immigrants. The Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being, but Congress should make these changes equitably. The House bill bans benefits for over a million immigrants who are now enrolled in SSI, Medicaid, or food stamps. The Senate bill's benefit restrictions distinguish between immigrants with and without sponsors. This is a more sensible approach than the House bill, which eliminates benefits to virtually all immigrants.

The Administration strongly opposes the Senate provision that would discriminate against U.S. citizens by denying benefits to legal immigrants even after they became naturalized citizens. We cannot have two categories of citizens. Equally objectionable is the Senate provision that would establish a class system for American citizenship by requiring sponsors' income to exceed 200 percent of poverty. Working families who are U.S. citizens should not have to pass a wealth test to be reunited with a family member. In addition, fairness dictates that Congress adopt the House provisions that exempt from benefit cut-offs those over age 75 and those too disabled to complete the naturalization process.

Several further changes could make the legislation more acceptable to the Administration. Immigrants who become disabled after entering the country should be able to get SSI. Benefit restrictions should not apply to discretionary programs and such mandatory programs as student loans and the social services block grant; the administrative burdens on these programs of verifying everyone's citizenship is significant, and the budget savings are negligible. In addition, refugees and others who came to the U.S. to avoid persecution should get adequate time to naturalize before being subject to benefit restrictions. Finally, the Administration has serious reservations about the bill's application of these provisions to Medicaid.

Disabled Children

Both the House and Senate bills go too far in the changes they would make to the SSI children's disability program. In general, the Administration favors the Senate provisions over the House bill's deep cuts, which go far beyond what's needed to correct the program's recent growth. The House bill would eventually prevent nearly a million disabled applicants who could be eligible under current rules from receiving cash assistance. We support the bipartisan Senate decision to continue to provide SSI cash benefits for all eligible children. But we strongly urge Congress to reduce hardship to disabled children currently on SSI by exempting them from these new, stricter eligibility rules. If Congress applies these rules to current SSI recipients, however, the Administration recommends only applying them to children eligible as a result of maladaptive behavior.

Pension Asset Reversions

As the OMB Director wrote to Chairman Archer on September 13, the Administration strongly opposes a Ways and Means-passed provision that makes it easy for companies to withdraw "excess" pension assets from an ongoing plan for their own use. The provision defines "excess funding" as the amount that exceeds 125 percent of the pension plan's current liability, but companies can use actuarial assumptions that would leave a pension plan underfunded if it is terminated (or if stock prices or interest rates fluctuate). Under this provision, a reversion could leave a plan that terminated with less than the funds needed to pay pensioners.

Companies in financial trouble might have incentives to transfer funds out of pension plans, thus increasing the risk of loss for plan participants and for the Pension Benefit Guaranty Corporation. Such reversions also risk a repeat of the pension raids of the 1980s, when reversions helped fuel corporate takeovers and buyouts. Back then, $20 billion was taken from pension plans. By Congress's own estimate, the new reversions would total about $30 billion. This short-sighted provision risks undermining our private retirement system.

Health Benefits for Retired Unionized Coal Miners and their Families

A 1992 law requires coal mining companies to finance a health care arrangement for retired coal miners and their dependents. A Ways and Means-passed provision would exempt certain companies from their obligation to pay for retirement health benefits for their former employees, thereby threatening the solvency of the arrangement that serves nearly 100,000 retirees and dependents.

Earned Income Tax Credit (EITC)

The Administration strongly objects to the Ways and Means proposal to cut the EITC by $23 billion over seven years, raising taxes on 14.5 million low-wage workers and their families, containing 17.7 million children. Indeed, these changes represent the antithesis of welfare "reform": They would make work pay less, penalizing those who play by the rules. The bill would require taxpayers to include social security benefits in adjusted gross income for purposes of the EITC, raising taxes on 1 million retired, widowed and disabled workers by an average of $859. In addition, the bill would change the phase-out formula for families with children, affecting all EITC recipients with $11,260 or more of income. It also would deny the EITC to 4.3 million very low-wage workers who do not reside with qualifying children.

The Administration believes strongly that Congress should not raise taxes on working families to finance tax breaks for the well-off. It should limit its changes to the compliance improvements that the Administration has proposed.

Taxes

The Administration strongly opposes the House tax cut; it is fiscally irresponsible, would make the tax law more complex, encourage tax shelters, and provide a disproportionate share of benefits to high-income families. The proposed tax cut by far exceeds the $245 billion that the budget resolution specifies. We do not know how the House intends to reach the budget resolution targets.

Even if reduced to $245 billion, the tax cut would be far too large. At a time when Congress seeks to save almost $1 trillion to balance the budget, adding another $245 billion to the deficit through lower taxes forces more drastic cuts in public services and benefits for lower- and middle-income families. Without this big a tax cut, Congress would not need the drastic cuts in Medicare in the budget resolution, including the increase in premiums for the elderly at all income levels.

The tax cuts provide large benefits to those who need them the least. The neutral cost recovery system (NCRS) reduces corporate income tax revenues substantially and opens up new tax shelter opportunities, while the virtual elimination of the corporate alternative minimum tax (AMT) will enable many profitable corporations to avoid paying any income tax at all. The capital gains cut is overly generous, disproportionately benefits upper-income families, will make the tax law more complex through the indexing provision, and will encourage tax shelters. Overall, about 52 percent of the benefits from the House tax provisions will accrue to families with incomes over $100,000 (the top 12 percent of families).

The Administration also has serious concerns about more specific provisions of the House tax bill. For example, the Administration opposes the proposal to initiate federal taxation of tribal revenues from Indian gaming, which would significantly reduce resources available to tribes for such vital government services as health, education, welfare, and law enforcement -- now funded through such revenue. Furthermore, other tax-exempt or tax-immune entities that conduct these activities (such as, churches or state governments) are not taxed.

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

October 25, 1995
(Senate)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

S. 1357 - Budget Reconciliation Act of 1995
(Domenici (R) New Mexico)

If this budget reconciliation legislation -- with its extreme spending cuts and huge tax cuts flowing disproportionately to people who don't need them -- were sent to the President in its current form, he would veto the bill. The reasons are set forth in the attached Office of Management and Budget letter of October 23, 1995 to Chairman Domenici.

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

THE DIRECTOR

October 23, 1995

Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to transmit the Administration's views on the actions that Senate committees have taken to comply with their budget reconciliation instructions.

You should have no doubt about the President's position: If reconciliation legislation were sent to him with the extreme spending cuts and huge tax cuts called for in the budget resolution, he would veto the bill. The President has stressed the importance of finding common ground with Congress on a budget plan that will best serve the interests of the American people.

As you know, the President shares with congressional leaders the goal of balancing the budget. But, as the President and his senior advisors have repeatedly noted, the Administration has profound differences with the overall approach that Congress has adopted to reach that goal:

- **The President's plan:** The plan, which the President announced in June, would protect Medicare until 2006 and retain Medicaid as an entitlement; invest in education and training and other priorities; and provide for a targeted tax cut to help middle-income Americans raise their children, save for the future, and pay for postsecondary education.

  To reach balance, the President would eliminate wasteful spending, streamline programs, and end unneeded subsidies; take the first, serious steps toward health care reform; reform welfare to reward work; cut non-defense discretionary spending (other than the President's investments) 22 percent in real terms in 2002; and target tax relief to those who really need it.

- **The Republican plan:** The Republican plan -- as reflected in the committee reconciliation provisions -- seeks to balance the budget while providing a huge tax cut whose benefits would flow disproportionately to those who do not need them.

  To reach balance, the Republican plan would cut deeply into such mandatory programs as Medicare, Medicaid, student loans, and food stamps, and would raise taxes on millions of working families by slashing the Earned Income Tax Credit (EITC). By extending the discretionary caps at Republican-proposed levels, the Republican plan would force deep cuts in virtually all discretionary programs, including education and training, science and technology, environmental protection, and other priorities.

The President believes strongly that, while his approach reflects the common ground that Americans share, the Republican plan reflects an extreme and unwise approach that will hurt average Americans and help special interests. He has repeatedly urged Congress to work with him on a more reasonable path that will help raise average living standards in the future.

The Republican majority, however, has shown little inclination to move to a more responsible path. The Finance Committee, for instance, has passed deep, unwarranted cuts in Medicare that would raise costs for beneficiaries and sharply cut payments to providers, jeopardizing access to, and the quality of, care. In addition, Finance would convert Medicaid into a block grant, which is unacceptable. Under the Finance Committee approach, states would face untenable choices: cutting benefits, dropping coverage for millions of beneficiaries, or reducing provider payments to a level that would undermine the ability to adequately serve beneficiaries. Furthermore, Finance would end standards needed to protect residents of nursing homes, and would not ensure coverage for some of the most vulnerable Americans -- poor children.

The Republican tax plan hurts working Americans. The Finance Committee would raise taxes on 17 million working families by cutting the EITC. And it would make unwise changes to pension fund asset reversions -- making it easy for companies to withdraw "excess" pension assets -- threatening the retirement benefits of workers and increasing the exposure of the Pension Benefit Guaranty Corporation, which guarantees these benefits. In addition, the Governmental Affairs Committee would raise Federal employee retirement contributions -- which is tantamount to raising employees' taxes.

The Finance Committee has included the Senate-passed welfare reform bill in the reconciliation bill. Overall, food program and EITC cuts elsewhere in reconciliation, together with other low-income program cuts, are excessive. For welfare reform to succeed, it must save money by moving people from welfare to work, not by merely cutting them off or shifting costs to the states. The cost of excessive program cuts -- to working families, families with small children, low-income immigrants, disabled children, and the elderly receiving Supplemental Security Income -- would be grave. The Administration proposes a more acceptable level of cuts, coupled with strong programmatic reforms.

Other committees are making cuts in programs that would adversely affect millions of students and their families, children, the poor of all ages, farmers, and the environment.

The Senate Labor and Human Resources Committee would raise college loan costs to middle- and low-income students and parents, and tax colleges and universities. In particular, the Committee would cap the Direct Student Loan Program, reversing the program's significant progress and ending the participation of over 600 schools and hundreds of thousands of students. These actions hurt middle- and low-income families, make student loan programs less efficient, perpetuate unnecessary red tape, and deny to students and schools the free-market choice of guaranteed or direct loans.

The Agriculture Committee would cut farm spending over three times more than the President, reducing farm income and jeopardizing recent record gains in U.S. farm exports. Also, it would cut food stamps too much -- even more than the Senate welfare bill -- threatening the nutritional safety net for children, the elderly, and working families.

The Energy and Natural Resources Committee would open the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling, threatening a rare, pristine ecosystem, in hopes of generating $1.3 billion in federal revenues -- a revenue estimate based on wishful thinking and outdated analysis. Moreover, the potential for long-term damage to this biologically-rich wilderness is simply too great. The Administration, instead, supports efforts to protect the refuge's coastal plain permanently.

Already, the President has made it clear that he will veto any reconciliation bill that includes Medicare and Medicaid cuts of the size that the budget resolution calls for. Also, as I wrote to the Energy and Natural Resources Committee on September 21, the President will veto any reconciliation bill that opens ANWR to oil and gas drilling. But our serious concerns do not end with the specific veto threats that we have issued. For the wide array of reasons discussed in this letter, this bill remains unacceptable to the Administration and to the American people.

This nation was founded on the dream that all families should be given the opportunity to improve their lives and the future of their children. The Republican plan undermines that dream and promotes the wrong set of priorities for the nation.

Attached is a more detailed review of our concerns.

Although we have major differences with Congress at this point, we hope to work with you to find a common path to balance the budget in a way that will improve the standard of living of all Americans.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

Attachment

Identical letters sent to Honorable J. James Exon,
Honorable Robert Dole, and Honorable Thomas Daschle

CONCERNS WITH SENATE RECONCILIATION PROVISIONS

SENATE AGRICULTURE

Farm policy

The Administration objects to the $13.4 billion cut in farm program spending over seven years -- well over the $4.2 billion in seven-year savings in the President's balanced budget plan. Cuts of the Senate's magnitude would unacceptably reduce U.S. farm income and damage U.S. agricultural export opportunities in the world economy.

The bill does not direct funding to those who most need it, and would punch holes in the safety net for family farmers; while it would significantly protect large-scale farming, it would not significantly protect small-scale farming.

Moreover, farmers would no longer have to participate in the Federal Crop Insurance Program as a condition of receiving farm program benefits, potentially undoing the major reforms only recently achieved in that program.

The bill would cut international trade promotion and market development assistance. It would cut the Export Enhancement Program by 20 percent a year, and the Market Promotion Program by 32 percent a year, diminishing our ability to compete in international markets -- in stark contrast to our competitors who continue to subsidize their farmers substantially.

In addition, the bill would cut incentives for voluntarily accomplishing conservation goals. It would cut the Conservation Reserve Program in half (costing about 15 million acres of resource protection) compared to the Administration's baseline. It would prohibit the Wetland Reserve Program from offering permanent easements, thus requiring USDA to pay multiple times for the same piece of land in order to protect wildlife and water quality. Especially at a time when regulatory controls for wetlands protection are under attack, Congress should not cut incentive-based programs so drastically.

Food Stamps and Child Nutrition

The committee's proposal includes the Senate welfare bill's food stamp provisions and other provisions. All told, the committee would cut food stamps by $31 billion -- $4 billion more than the Senate welfare bill. The President's balanced budget plan includes a preferable funding level, saving $19 billion over seven years but preserving uniform, national eligibility for most of those now entitled to the program. We must preserve the national nutrition safety net, which assists about 27 million low-income children, elderly and working families.

While, generally, Senate-proposed changes to nutrition programs improve on those in the House welfare bill -- such as by rejecting block grants for child nutrition programs and WIC -- the Administration strongly opposes the food stamps block grant option, which the Senate welfare bill includes. By not requiring that all assistance go for food, the Senate would endanger the national program and move toward abdicating the federal role in combating hunger. Especially if Congress creates an AFDC block grant, we must preserve a national food stamp entitlement program; a national nutrition program helps put food on the table for low-income families who may lose their cash assistance, and it helps agricultural producers.

Moreover, the Administration strongly believes that all food stamp spending should go for food assistance, not just 80 percent, as the Senate block grant option would permit. Federal nutrition programs have produced measurably better health among the many people who get food assistance. National nutrition standards and a funding mechanism that lets the programs expand to meet greater needs in times of national or regional economic hardship are essential to feasible welfare reform.

SENATE ARMED SERVICES

The Administration is pleased that the Senate chose not to break faith with our service men and women by changing the method for computing military retirement pay, but instead chose to allow increased sales from the National Defense Stockpile to offset defense mandatory program increases.

The committee also proposes to sell the Naval Petroleum Reserves, as the President proposed. The Administration urges Congress not to rush the sale, enabling the federal government to receive fair market value for the assets.

SENATE BANKING, HOUSING, AND URBAN AFFAIRS

Banking Insurance Fund (BIF)/Savings Association Insurance Fund (SAIF)

The Administration strongly supports the Committee's action to deal with the financial problems of the Savings Association Insurance Fund (SAIF). It is essential to eliminate the perverse incentives created by a premium differential between SAIF and the Bank Insurance Fund (BIF). The bill would do so through a one-time special assessment on SAIF-insured deposits and by spreading Financing Corporation payments pro rata over all FDIC-insured institutions. In addition, we believe that the legislation should unambiguously provide for the SAIF's merger with BIF; which is essential to assuring that SAIF's structural vulnerabilities cause no further problems. While the Administration supports an ultimate merger of the thrift and bank charters, the difficult issues involved in the charter merger (including tax issues) should not interfere with enactment of a comprehensive solution to SAIF's financial problems that includes merging the deposit insurance funds. The Administration is also concerned that future congressional action to trigger the fund merger may carry a budgetary cost, creating an obstacle to it.

HUD Rental Subsidy Annual Adjustment Factor

The Administration is concerned about the equity of limiting the 1 percentage point cut in HUD's annual adjustment factor for subsidized rents to only one form of Section 8 rental assistance -- tenant-based certificates. The Administration prefers the House approach -- consistent with the Administration's 1995 and 1996 budget proposals -- of extending this reduced adjustment to all forms of Section 8 subsidies, including tenant-based certificates and subsidies attached to projects. Congress enacted this approach for one year only as part of the 1995 VA/HUD Appropriation Act, and will likely enact it again in the 1996 Appropriation.

SENATE COMMERCE, SCIENCE, AND TRANSPORTATION

Spectrum Auction

The Administration commends the Committee for including legislation to raise funds from spectrum auction, and believes the Committee's spectrum language is preferable to the House Committee's. Unlike the House provision, the Senate provision provides for paying (from auction proceeds) the costs that federal agencies bear in migrating from one portion of the telecommunications spectrum to another. This provision could be particularly important for the Departments of Defense and Justice and the Federal Aviation Administration. We should not require agencies to absorb these costs in their discretionary appropriations.

Rail Infrastructure

The Administration objects to the Committee's decision to spend $70 million over seven years to make available up to $100 million a year in guaranteed loans under the Federal Railroad Administration's Section 511 program. Railroads are financially healthy and have access to substantial financing through the private capital markets. In this era of declining discretionary budgets, subsidized loans to private, profitable corporations are objectionable.

The Administration also objects to spending $75 million to revive the Local Rail Freight Assistance program. The Administration proposed to terminate this program in the 1996 Budget, and both House and Senate appropriators chose to eliminate it as well. The federal government should not be in the business of handing out grants to private corporations.

SENATE ENERGY AND NATURAL RESOURCES

Arctic National Wildlife Refuge

As noted above, the President will veto any reconciliation bill that opens the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling. Exploration and development activities would bring physical disturbances to the area, unacceptable risks of oil spills and pollution, and long-term effects that would harm wildlife for decades. Moreover, the estimate that ANWR will generate $1.3 billion in federal revenues from oil and gas leasing is wishful thinking, based on projected oil prices in the year 2000 of above $30 per barrel -- even though the Energy Information Agency now predicts prices will only be about $19 per barrel. The estimate also fails to consider new geological information showing lower recoverable oil estimates and Alaska's claims that its Statehood Act entitles it to 90 percent of all revenues -- not 50 percent, as the estimate assumes.

Hardrock Mining Reform

The Administration is concerned that the Committee's proposal to reform the antiquated 1872 hardrock mining law would, in fact, leave it largely intact. Most notably, the proposal essentially retains the notorious patenting provision whereby the government transfers billions of dollars of publicly-owned minerals at relatively little charge to private interests. The proposed "net" royalty on proceeds from minerals production on federal lands has excessive deductions, and would raise only a small amount of money to compensate taxpayers or fund the cleanup of abandoned mines that are degrading water supplies and otherwise harming the environment.

Additional Concerns

The Administration opposes the proposal to sell an additional 32 million barrels of Strategic Petroleum Reserve (SPR) oil, beyond the seven million proposed in the President's 1996 Budget and included in the 1996 Interior Appropriations Conference Report. The Administration is pleased with provisions which advance prospects for selling the United States Enrichment Corporation (USEC), although we are concerned about Senate provisions that would transfer exclusive rights to gaseous diffusion technology from the Energy Department to USEC and believe some changes are needed to successfully implement the Russian uranium agreement. In addition, while we appreciate inclusion of the Alaska Power Administration sale to current customers -- as the Administration has proposed -- we believe that all Power Marketing Administrations, except the Bonneville Power Administration, should be sold to their customers.

The Committee also has chosen to use the reconciliation bill as a catch-all for various objectionable policies, many of them having nothing to do with balancing the budget. The oil and gas royalties proposal includes a number of provisions that would make royalty collection far more difficult and costly for the federal government. The Ward Valley (CA) Land Transfer (which the Administration supports in concept) includes no environmental conditions. The Communication Site Fees proposal would prevent the National Forest and Bureau of Land Management (BLM) lands from implementing a fair market value fee schedule that they developed over the past three years, reducing and delaying revenues to the Treasury and to states and counties where the sites are located. The aircraft services proposal would raise the Interior Department's federal procurement costs and reduce efficiency. The Reclamation Reform Act proposal would unjustifiably allow large landowners to prepay, at a discounted rate, the highly subsidized debt they owe the U.S. for their share of capital costs of Bureau of Reclamation irrigation projects. The Collbran Project Transfer proposal, by delaying the transfer until 2000 but not adjusting the price tag or covering the power debt, would provide an unwarranted triple subsidy to the project's water district conservancy.

SENATE FINANCE

Medicare

The Administration strongly opposes the magnitude of the proposed Medicare cuts -- $270 billion over seven years. While Republicans say we need cuts of this size to "save" the Medicare Part A Trust Fund, in fact we need only about $90 billion in Part A savings to ensure the trust fund's solvency for the next 10 years. The rest of the Republican Medicare cuts would finance the Republican tax cut.

Further, the Republican plan imposes almost $70 billion in new financial burdens on beneficiaries. Most of it comes from setting the Part B premium to cover 31.5 percent of program costs. This increase is excessive. The Republican plan also more than triples the Part B premiums for some higher-income beneficiaries. For all beneficiaries, the Part B deductible would more than double by 2002. The Republican plan then compounds these direct new burdens on beneficiaries by imposing many hidden cuts that will force them, over time, to pay much more for their health care services.

For example, the Senate's new "Medicare Choice" option actually gives beneficiaries less choice. Though it promises to give beneficiaries free choice between traditional Medicare and all the options under Medicare Choice, the legislation applies distinctly uneven rules to Medicare and Medicare Choice, making the former much less attractive to providers than the latter. These incentives, along with a provision that applies the so-called "budget expenditure limiting tool" (BELT) of more cuts only to the traditional program, would reduce providers' willingness to serve beneficiaries in traditional Medicare. This will restrict beneficiary choice, not enhance it. Medicare Choice, as structured in the Republican plan, also would promote adverse risk selection that could increase costs for the traditional program. The Administration does not support efforts to use Medicare beneficiaries to experiment with untested concepts that could weaken the program.

The Medicare Choice "choice" is also a bad one for beneficiaries because they will lose protection from "balance billing," whereby providers charge beneficiaries more than Medicare approves. Medicare permits no balance billing by hospitals and only limited balance billing by physicians. Medicare Choice plans, however, will widely permit it. Physicians, and possibly other providers such as hospitals and skilled nursing facilities, in fee-for-service Medicare Choice plans will be able to charge patients whatever they want.

The same will be true for patients electing the catastrophic or medical savings account (MSA) plans. For managed care plans, the Senate bill appears to let each private plan decide whether to offer beneficiaries any protection from unlimited provider charges. There would be no Federal protection for beneficiaries in these plans. Whenever patients receive non-emergency care outside of the plan -- even if the plan authorizes such care -- beneficiaries would not be protected from excessive charges by physicians. Given the very tight caps that this bill would impose, provider pressures to balance bill will grow. If providers begin to move to Medicare Choice plans to escape balance billing limits, beneficiaries will face the choice of following them and paying more, or remaining in traditional Medicare where fewer doctors and hospitals are able to care for them.

Medicaid

The Administration strongly opposes both the magnitude of proposed Medicaid cuts -- which would cut federal payments to states by $182 billion, or 20 percent, below current law -- and the conversion of Medicaid into a block grant, eliminating guaranteed coverage to millions of Americans. By 2002, the cuts would amount to a 30 percent reduction below CBO's estimate of the cost to maintain current services. To reach these savings, per capita health care spending growth under Medicaid would have to fall to an average of 1.4 percent a year over the next seven years; by contrast, per capita spending in the private sector is projected to grow by 7.1 percent a year over this period. Given such a low rate of growth, states would face untenable choices: cutting provider payment rates, cutting benefits, or dropping coverage for millions of beneficiaries.

Furthermore, in converting Medicaid into a drastically smaller block grant program, the Committee bill reduces the guarantee of coverage on which millions of low-income families have depended. Over 36 million Americans -- individuals with disabilities, children, pregnant women, elderly nursing home residents, mentally retarded children and adults, mentally ill persons, and others -- who cannot pay for their own health care are now assured access to a package of basic services. Because this guarantee is eliminated, millions of children and many other vulnerable Americans could lose access to health care.

Although the Chafee amendment purported to "guarantee" coverage to certain groups, it does not define coverage. For example, it leaves the definition of who is disabled and, thus, eligible for guaranteed coverage entirely to the states. Further, given the size of proposed Medicaid cuts, the level of benefits that the states could guarantee could be minimal.

The Senate bill jeopardizes the income, homes, and cars of nursing home residents and their spouses. Under current law, federal Medicaid eligibility standards, which the Senate bill would repeal, protects these residents and their spouses from losing their homes and cars. Also under current law, spousal impoverishment provisions protect a minimum level of income and assets, not including the home and car. Because the Senate bill leaves both eligibility requirements and spousal impoverishment protections up to the states, the federal government would no longer assure that the income, homes, and cars of Medicaid recipients will be protected.

The bill also repeals federal nursing home quality standards for Medicaid and directs states to adopt whatever standards they choose. With an enormous cut in federal financial assistance, states may not be able to afford to develop and enforce standards to ensure a high quality of care and quality of life.

The bill also repeals protection for low-income Medicare beneficiaries under Medicaid. Currently, an estimated 5 million individuals receive Medicaid assistance with their Medicare premiums, deductibles, and other cost sharing. The need was so great that congressional Democrats and Republicans came together to create the Qualified Medicare Beneficiary (QMB) program. President Reagan signed legislation to create the program; President Bush signed a bill to expand it. These beneficiaries are doubly hit by Republican proposals. First, Republican *Medicaid* proposals eliminate guaranteed coverage of Medicare cost-sharing, potentially leaving beneficiaries ultimately liable. In addition, Republican *Medicare* proposals will exacerbate the hardship by increasing the premium amounts they must pay.

The Administration is concerned that the Committee bill repeals the Vaccines for Children Program (VFC), a 100 percent federally-funded entitlement for Medicaid-eligible, uninsured, under-insured, and Indian children. Although the bill requires states to cover immunizations for Medicaid-eligible children, thousands of uninsured, under-insured, and Indian children would lose coverage. Further, in converting Medicaid into a drastically reduced block grant, federal funding dedicated to immunizing children would decline, threatening our efforts to insure that 90 percent of all children under age 2 are properly immunized for the initial, and most crucial, doses of vaccine.

Earned Income Tax Credit (EITC)

The Administration strongly objects to the Committee's proposal to cut the EITC by $43.5 billion over seven years, raising taxes on 17 million households. The changes would affect nearly 24 million children.

By partially repealing the indexing of the EITC, the Committee's proposal would generate creeping tax increases each year. Working families would see their taxes rise by $302 in 1996 and by $471 in 2005 (in 1996 dollars). Families with two or more children would fare the worst under the proposal. In 1996, taxes would increase, on average, by $410 for over 7.4 million families with two or more children. Their taxes would increase by $644 by 2005 (1996 dollars). By 2005, 22 percent of all families with children eligible for the EITC under current law would lose that eligibility.

Under the proposal, 1 million EITC recipients would be taxed on their full social security benefits, increasing their taxes by an average of $859. The proposal also would repeal the EITC for very low-wage workers who do not reside with qualifying children. For these workers whose adjusted gross income is less than $9,500, average taxes would rise by $173.

The Administration believes strongly that Congress should not raise taxes on working families to finance tax breaks for the well-off. It should limit its changes to the compliance improvements that the Administration has proposed.

Tax Cuts

The Administration strongly opposes the Committee tax cut; it is fiscally irresponsible and would provide a disproportionate share of benefits to high-income families. At a time when Congress seeks to cut over $1 trillion to balance the budget, adding another $245 billion to the deficit through lower taxes forces more drastic cuts in public services and benefits for lower- and middle-income families. Without this huge tax cut, Congress would not need the drastic cuts in Medicare in the budget resolution, including the increase in premiums for the elderly at all income levels.

The tax cuts provide large benefits to those who need them the least. The capital gains cut, among other provisions, is overly generous and disproportionately benefits upper-income families. Overall, about 48 percent of the benefits from the Finance tax bill will accrue to families with incomes over $100,000 (the top 12 percent of families). At the same time, the combined effects of the tax cuts and cuts in the EITC will raise taxes on families with income under $30,000.

Pension Reversion

The Administration strongly opposes the "pension reversion" provision that would permit companies to withdraw "excess" pension assets. As the Pension Benefit Guaranty Corporation's board members stated in their October 17 letter to Chairman Roth, the Senate provision would "result in the removal of billions of dollars from the pension system, endangering workers' retirement income for the purpose of paying current expenses. This would increase the risk of loss for workers, retirees and the pension insurance system. Despite the nominal restrictions imposed ..., the proposal would effectively allow companies to remove assets from retirement plans and use these funds for any purpose... This is not the intended use of funds that have accumulated with the aid of the valuable tax incentives explicitly designed to promote pension savings for workers."

Such reversions risk a repeat of the pension raids of the 1980s, when reversions helped fuel corporate takeovers and buyouts. This short-sighted provision risks undermining our private retirement system. We must increase our savings for retirement and enhance, not diminish, public confidence in our pension system.

Health Benefits for Retired Unionized Coal Miners and their Families

A 1992 law combines federal and company funding to finance the health care for retired coal miners and dependents that was promised them in collective-bargaining agreements. A proposed amendment would release certain coal companies from their obligations, including those that signed an agreement to pay future costs for their former employees. The resulting lack of revenue could threaten the health care of nearly 100,000 retired coal miners and their families.

Child Support Enforcement

The Administration has significant concerns about a Committee proposal mandating that, in order to recoup administrative expenses, States collect an amount equal to a $25 application fee and a 10 percent fee on all non-AFDC child support collections. Such a fee, amounting to a cut in income, would withdraw vital support for children, unduly burdening low- and moderate-income families and possibly forcing some back on AFDC.

Welfare Reform

AFDC, Work and Child Care. The Committee included the Senate-passed welfare reform bill in its reconciliation package. The Senate bill is significantly preferable to the House welfare bill in promoting work and protecting children, but the bill nevertheless raises important issues:

- The Administration strongly supports the bipartisan Senate improvements to provide the child care that people need to move from welfare to work. Without sufficient child care funding, welfare reform will prove an enormous unfunded mandate on states. The Administration recommends that Congress improve the final bill by adding more child care money, not less. The Administration strongly supports the Senate child care provisions that gives states a separate funding stream for child care and provide services to help families stay off welfare.

- The Administration is pleased that the Senate has included maintenance of financial effort provisions in the bill. Congress should clarify these provisions, however, to tighten the definition of allowable expenditures.

- Congress should provide states with greater protection in a serious recession by strengthening the Senate's contingency grant fund. From 1989-93, AFDC caseloads grew by 32 percent and AFDC spending by $8 billion. But the Senate welfare bill's contingency fund provides only $1 billion over seven years.

Foster Care. The Administration has strong reservations about the bill's proposed cap on foster care administrative costs. At a time when sharp changes in welfare policy may affect foster care caseloads substantially, the proposed cap would restrict states' ability to safeguard the well-being of abused and neglected children.

Supplemental Security Income. Both the House and Senate bills go too far in the changes they would make to the SSI children's disability program. In general, the Administration favors the Senate provisions over the House bill's deep cuts, which go far beyond what's needed to correct the program's recent growth. The House bill would eventually prevent nearly a million disabled children who could be eligible under current rules from receiving cash. We support the bipartisan Senate decision to continue to provide SSI cash benefits for all eligible children. We strongly urge Congress to reduce hardship to disabled children now on SSI by exempting them from these new, stricter eligibility rules. If Congress applies these rules to current SSI recipients, however, the Administration recommends only applying them to children eligible as a result of maladaptive behavior.

The Administration also recommends the deletion of a Senate provision that would gradually raise the age requirements to elderly poor applying for SSI from 65 to 67, paralleling the rising age requirements for Social Security. The apparent consistency of this change masks an important difference between these two programs: Social Security recipients can retire early and get benefits, and most do so, but no early eligibility age exists for SSI. The Senate added this provision at the last minute without adequate public scrutiny and debate; Congress should drop it.

Benefits to Immigrants. Both the House and Senate bills go too far in cutting benefits to legal immigrants, and shifting costs to states with high numbers of immigrants. The Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being, but Congress should make these changes equitably. The House bill bans benefits for over a million immigrants who are now enrolled in SSI, Medicaid, or food stamps. The Senate bill's benefit restrictions, however, distinguish between immigrants with and without sponsors (except for purposes of SSI). Focusing benefit restrictions on immigrants with sponsors is a more sensible approach than the House bill. The Senate bill, however, should include the immigrant exemptions of the House bill.

The Administration strongly opposes the Senate provision that would discriminate against U.S. citizens by denying benefits to legal immigrants even after they became naturalized citizens. We cannot have two categories of citizens, and a provision that treats naturalized citizens less favorably than the native born raises serious constitutional concerns. Equally objectionable is the Senate provision that would establish a class system for American citizenship by requiring sponsors' income to exceed 200 percent of poverty. Working families who are U.S. citizens should not have to pass a wealth test to be reunited with a family member. In addition, fairness dictates that Congress adopt the House provisions that exempt from benefit cut-offs those over age 75 and those too disabled to complete the naturalization process.

Several further changes could make the legislation more acceptable to the Administration. Immigrants who become disabled after entering the country should be able to get SSI. In addition, benefit restrictions should not apply to discretionary programs and such mandatory programs as student loans and the social services block grant; the administrative burdens on these programs of verifying everyone's citizenship is significant, and the budget savings are negligible. Refugees and others who came to the U.S. to avoid persecution should get adequate time to naturalize before being subject to benefit restrictions. Finally, the Administration has serious reservations about the bill's application of these provisions to Medicaid.

SENATE GOVERNMENTAL AFFAIRS

Civil Service Retirement

The Administration is concerned about the Committee's proposal to raise employee retirement contributions, which is tantamount to raising employees' taxes. We should not raise taxes on federal employees at a time when we are reducing their numbers and asking those that remain to provide the American people with a government that works better and costs less.

Also, the Administration is concerned about a Committee proposal to delay the cost of living adjustment (COLA) from January to April for federal civilian retirees. Unlike private and military retirees, most current federal civilian retirees are not covered by Social Security, making them entirely dependent on their retirement benefits to maintain an adequate standard of living.

SENATE JUDICIARY

Patent and Trademark Office (PTO) fees

The Administration is concerned about the Committee's proposal to extend the patent surcharge fund, and to deny PTO full access to its fees without discretionary appropriations. This withholding of fees increases patent pendency and delays the deployment of new technology to the marketplace. The President's budget supports the elimination of the patent surcharge fund beginning in fiscal 1999 and the PTO's full access, without appropriation, to all fees.

SENATE LABOR AND HUMAN RESOURCES

Student Loans

The Committee would get over 60 percent of its $10.8 billion in savings by cutting educational assistance to students and parents, and taxing colleges and universities. The Administration strongly opposes all of these provisions.

The President's direct lending program has been a great success, saving money and increasing access to education. Thus, the Administration strongly opposes the Committee's proposal to cap it. The program is easier for institutions to administer than the guaranteed loan program and gives students more flexible repayment options, including income-contingent repayment. By capping the program at 20 percent of total federal student loan volume, the Committee would eliminate up to half the institutions that are participating in this streamlined loan program. It also would prohibit other institutions from participating, including those that have already applied.

The Administration strongly opposes the Committee's proposed end to the federal subsidy of interest payments that Stafford loan recipients receive during the 6-month "grace period"; these undergraduate students' costs could rise as much as $700. In addition, the Administration strongly opposes the Committee's increase in the PLUS loan interest rate, as well as its tax of 0.85 percent of total federal loan volume on institutions of higher education, which would penalize institutions in which a high proportion of students take out loans.

The Committee proposes large cuts in the administrative funding needed to effectively manage the guaranteed student loan program, and to avoid student loan fraud and abuse. These cuts would seriously weaken the Education Department's ability to ensure that taxpayer funds are properly used and accounted for. The Administration also opposes the Committee's proposed changes which would severely weaken the department's ability to oversee guaranty agencies and to protect federal assets under their control.

SENATE VETERANS' AFFAIRS

GI bill

The Administration is concerned about the Committee's proposed increase in the GI bill contribution rate, which would effectively cut the base pay of most first-year enlistees by 3.5 percent. The GI bill is a valuable recruiting tool of the Services; an increase in the required contribution could have an adverse effect on military recruitment.