

November 25, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
GENE SPERLING
ELENA KAGAN

SUBJECT: State of the Union Ideas

As you requested, this memorandum provides a brief description of new ideas we are seriously considering for the State of the Union. Most of these ideas involve increased spending, and you will have to make choices among them as you consider the FY 99 budget. Options relating to social security and tax reform are not included in this memo.

Education

1. Class size / 100,000 teachers: We are working with the Vice President's office and others on an ambitious initiative to reduce class sizes in the early grades by providing money to hire up to 100,000 new teachers, perhaps paid for by reducing the federal work force by another 100,000 positions. We estimate that 100,000 new teachers in grades 1-3 would reduce average class size from roughly 21 to roughly 18. The initiative would have three main elements: 1) grants to help states or communities hire new teachers (as in the COPS program, these grants would be time-limited (3-4 years) and the federal share would be 50-75%); 2) funds for teacher training, with a special emphasis on reading; and 3) provisions to ensure accountability, such as requiring testing of new teachers and/or ensuring the removal of bad teachers from the classroom. A serious proposal along these lines would cost \$5-10 billion over five years, depending on the size of the federal match and the target date for reaching 100,000. We also would need to accompany the proposal with a school construction initiative (see below).

2. Education Opportunity Zones: As we outlined in an earlier memo on policy proposals for the race initiative, we are working with the Education Department on a plan that would reward 10-15 poor inner city and rural school districts for agreeing to adopt a school reform agenda that includes: ending social promotions, removing bad teachers, reconstituting failing schools, and adopting district-wide choice and/or public school vouchers. Our goal is to give school districts incentives to hold students, teachers, and schools accountable, in essentially the way Chicago has done. In our working proposal, each urban grant would be worth \$10-25 million and each rural grant would be worth up to \$2 million, for a total request in FY99 of \$320 million.

3. National Public School Choice Law: We are exploring the possibility of proposing

legislation to require that states and communities allow public school choice as a condition of receiving federal education funding. Together with a strong endorsement of bipartisan charter school legislation (bound to pass next year), this measure will show that we firmly support choice and competition. We are also looking into the concept of a parents' right-to-know law that would require states and communities to make key information on school performance available, so that parents can make informed choices.

4. University-School Partnerships: As we also outlined in our earlier memo on the race initiative, we are working on a grant program to promote strong partnerships between colleges and high-poverty middle and high schools, with the goal of enabling more youth to go on to college. This initiative would encourage colleges to adopt the Eugene Lang model for helping disadvantaged youngsters. Colleges would encourage students to take demanding courses, while providing academic enrichment and intensive mentoring, tutoring, and other support services. The students would receive special certificates for participating in the program, somewhat along the lines of Chaka Fatah's proposal. The Department of Education has requested \$200 million for FY 99 for this initiative.

5. Campaign on Access to Higher Education: We are preparing to conduct an intensive publicity campaign on the affordability of higher education. The goal of the campaign would be to make every family aware that higher education is now universally accessible, as well as to reiterate that higher education is the key to higher earnings.

6. School Construction: We will need to re-propose a school construction initiative this year. We are currently considering the appropriate size and duration of this initiative, as well as the possibility of structuring this initiative as a tax credit.

7. Teacher Training for Technology: We are currently weighing several options on training teachers to use educational technology. These include (1) expanding various innovation grants to ensure that within four years, all new teachers will be ready to use educational technology, or (2) using the Technology Literacy Challenge Fund to train and certify at least one "master teacher" in every school, who can then train other teachers in the use of educational technology.

8. Hispanic Education Dropout Plan: We have developed a plan to improve educational opportunities for Hispanic Americans (or limited English proficient students generally), with the goal of decreasing the current disparity in dropout rates. The draft plan includes a number of administrative actions, as well as targeted investments of roughly \$100 million to programs for migrant, adult, and bilingual education.

9. "Learning on Demand": We are developing an initiative, related to some of Governor Romer's ideas, to encourage the use of technology (e.g., the internet, CD-ROM, interactive TV) for lifelong learning. The initiative will begin the process of giving all Americans "anytime, anywhere" access to affordable and high-quality learning opportunities. The initiative is still in the developmental stage, and at this time we recommend only a small investment.

Child Care

1. Affordability: We are developing a proposal that will help working families afford child care by (1) increasing funding for federal child care subsidies through the Child Care and Development Block Grant, and (2) changing the Child and Dependent Care Tax Credit by raising the percentage of child care expenses for which taxpayers of certain income levels may take a credit. On the subsidy side, every additional \$100 million in the block grant will pay child care costs for at least 35,000 more children with incomes below 200 percent of poverty. On the tax side, we are considering raising the maximum credit rate to 50 percent for taxpayers with adjusted gross income (AGI) of less than \$30,000 (from a current high of 30 percent for taxpayers with AGI of less than \$10,000), and adjusting the income slide accordingly.

2. Safety and Quality: We are also considering targeted investments to improve the safety and quality of care. Our current proposal adds funding to the scholarship program for child care providers that you announced at the child care conference (which was very well received); provides resources for states to improve their enforcement of health and safety standards; and funds efforts to educate parents on quality child care.

3. Early Childhood Learning and Afterschool Programs: Our current proposal also expands early learning opportunities by increasing investment in Early Head Start and creating a new 0-5 Early Education Fund. The new fund will provide grants for innovative early learning programs for both working and stay-at-home parents. We are also considering ways of expanding and streamlining afterschool programs.

4. Helping Parents Stay Home: To support parents who wish to stay at home with their children, we are working on ways to expand the FMLA -- to six months instead of 12 weeks and to smaller-sized employers. We are also looking at a variety of ways to provide financial assistance, whether through a modified version of the Child and Dependent Care Tax Credit or through paid family leave administered under the unemployment insurance system. The cost of these financial proposals, however, may be prohibitive.

Health

1. Consumer Protection Legislation: We should reiterate our support for three pieces of health care consumer protection legislation: (1) the Quality Commission's Consumer Bill of Rights, which has strong public and elite support and arguably is more moderate than a bill in the House that already has attracted over 85 Republicans; (2) our genetic anti-discrimination legislation, which has attracted bipartisan support on both sides of the Hill as a way to protect Americans

from the misuse of new advances in genetics; and (3) privacy protection legislation, which would establish strong federal standards to ensure the confidentiality of medical records. Although these consumer protections would benefit the entire population, women's health advocates are especially supportive of them, because the Consumer Bill of Rights would ensure direct access to OB/GYNs and our genetic anti-discrimination legislation would protect women who undergo new tests for the breast cancer gene.

2. Medicare Reform and Program Improvements: To build on the Medicare reforms in the balanced budget agreement, we are considering two reform initiatives: additional anti-fraud initiatives (perhaps providing \$2-3 billion in savings over five years) and an income related premium (providing another \$7-8 billion in savings assuming it kicks in at an income around \$50,000). We are also considering a number of Medicare improvements to which we could apply the above savings: (1) a Medicare (or COBRA) buy-in for pre-65 year olds (or some targeted subset of this age group), the cost of which would depend on whether we decide to subsidize this benefit; (2) Medicare coverage of cancer clinical trials, which could substantially increase investment in the treatment and cure of cancer, including prostate cancer; and (3) a new mechanism to provide Medicare beneficiaries with information about private long-term care insurance that meets appropriate standards.

3. Doubling the NIH Research Budget with Proceeds from Tobacco Legislation: We (along with the Republicans) are considering a proposal to double the NIH budget, which would cost about \$20 billion over five years. Such an investment could lead to breakthroughs in research that would greatly improve our ability to prevent and treat diseases like diabetes and cancer -- and substantially lessen the costs associated with these diseases. Because the discretionary caps are so tight, the only realistic way to pay for such an initiative is through dedicated savings from the tobacco agreement. This link between tobacco legislation and health research should resonate strongly with the public.

4. Other Coverage Options -- Children's Health, Workers In-Between Jobs, Voluntary Purchasing Cooperatives: We are working on a public/private outreach effort to ensure that every child eligible for health insurance under Medicaid or our new program actually gets covered. The public side of this effort could include proposals to: give bonuses for enrolling more children in Medicaid; expand the kinds of places where children can enroll; and simplify eligibility processes. In addition, we are considering whether to propose a demonstration of our old policy to provide coverage to workers who are in-between jobs. Finally, we are continuing to pursue proposals relating to voluntary purchasing cooperatives, as a way to help small business gain access to and afford health insurance coverage.

5. Racial Disparities in Health Care: We are working on a proposal to address racial disparities in six carefully selected areas of health care: infant mortality, breast and cervical cancer, heart disease and stroke, diabetes, AIDS, and immunization. This proposal will include nationwide actions to reduce these disparities, as well as focused pilot projects in thirty communities (say, a project on diabetes on an Indian reservation or a project on AIDS in an inner

city). The stated aim of the proposal will be to eliminate racial disparities in these six areas by 2010.

Crime

1. Community Prosecutors: We are working on a proposal, costing up to \$100 million, to provide grants to prosecutors for innovative, community-based prosecution efforts. A number of jurisdictions already have embraced such efforts; for example, community prosecution is an essential component of Boston's juvenile crime strategy. These jurisdictions have found that a "problem-oriented" (rather than incident-based) approach to prosecuting, using a wide variety of enforcement methods and attending to the concerns of victims and witnesses, can pay real dividends. A grant program could spread these innovative programs across the country.

2. Juvenile Crime Initiative: Although we got funds for much of our youth violence strategy in last year's appropriations bills, we should continue to press for the passage of juvenile crime legislation -- especially for a juvenile Brady provision, which will stop violent juveniles from owning guns as adults. We also should challenge the four cities leading the nation in juvenile crime (New York, Los Angeles, Chicago, and Detroit) to replicate Boston's successful strategy and target resources to these cities to help them meet this challenge.

Welfare/Housing

1. Welfare-to-Work Housing Vouchers: We are working with OMB and HUD on a proposal for 50,000 new housing vouchers to help welfare recipients in public housing who need to move in order to find employment. We would distribute these vouchers on a competitive basis to public housing authorities working with local TANF agencies and/or grantees of the new \$3 billion welfare-to-work program. We are working on a number of proposals to increase housing mobility (see below), and linking this issue to welfare reform may increase the chance of attracting congressional support. At the same time, we should reiterate our support for welfare-to-work transportation funds as part of NEXTEA.

Housing

1. Housing Portability/Choice: In addition to the new welfare-to-work housing vouchers discussed above, a package on housing portability and choice could include: increasing the number of Regional Opportunity Counseling (ROC) sites; encouraging the use of exception rents (rents up to 120 percent of the "fair market rent") as a tool for opening up more expensive suburban housing markets; and eliminating obstacles to portability of Section 8 vouchers.

2. Fair Lending/Fair Housing: This proposal could include: an examination of the impact of credit scoring and risk-based pricing on the availability of credit/capital to lower-income and minority individuals; issuance of guidance by banking regulators on certain key credit scoring issues and, possibly, on risk-based pricing; a Presidential call to the FDIC and the Federal

Reserve to obtain more data on reasons for home mortgage loan denials (OCC and OTS already collect such information); and collection of race and income data as part of the Equal Credit Opportunity Act/CRA small business and small farm lending reporting requirement.

3. Downpayment Reduction: We are working on a proposal to increase homeownership by reducing the barriers to buying a new home. Many low- and moderate-income families find a downpayment the largest hurdle to buying a new home; this initiative would lower this cost and help more families become homeowners. In 1992, Congress authorized the National Homeownership Trust, but never appropriated any money. We are investigating whether we should request money for this program or whether it is better policy to expand the existing HOME program (which serves a similar purpose).

Labor/Workforce

1. Child Labor: We are working on a comprehensive Child Labor Action Plan, anchored by a \$100 million commitment to the International Program on the Elimination of Child Labor (IPEC) -- a voluntary program of the International Labour Organization which is dedicated to the elimination of child labor. The funds, which would be managed by the Department of Labor in accordance with criteria we would develop, would go to programs attacking the most intolerable forms of child labor. The initiative also might include a stepped up Customs program to enforce U.S. law banning the import of goods made with forced or bonded child labor; increased support for the Migrant Education Program to support elementary and secondary education to the hardest-to-serve migrant children; and a call for prominent organizations, such as the Boy Scouts and Girls Scouts, to adopt a "No Sweat" code for uniforms and an accompanying label.

2. Pensions: We have developed an expanded pension coverage initiative that focuses on a simplified defined benefit plan for small businesses, based on the SAFE plan proposed by the American Society of Pension Actuaries (ASPA). We are also looking at a payroll deduction IRA proposal, a three-year vesting requirement for employer matching contributions in 401(k) plans, a women's pension initiative, and a pension right-to-know proposal.

3. Community Adjustment: As part of the Fast Track debate, we proposed the creation of the Office of Community and Economic Adjustment (OCEA). As you know, **this office will be modeled after the Defense Department's Office of Economic Adjustment (OEA) -- the Administration's first point of contact with communities experiencing a military base closure or defense plant closing. The OCEA would coordinate the Administration's response to regions impacted by a major plant closing or trade, by working with Labor, Commerce, SBA, HUD, Treasury, and other government entities. This group would provide planning grants and expertise to help communities develop comprehensive economic adjustment strategies. Since this program will be part of the Economic Development Administration (EDA), we are investigating whether we could initiate this proposal by executive memorandum, while awaiting Congressional appropriations.**

Climate Change