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OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503



November 17, 2005
(House)

STATEMENT OF ADMINISTRATION POLICY

H.R. 4241 - Deficit Reduction Act of 2005
(Rep. Nussle (R) IA)

The Administration strongly supports House passage of H.R. 4241 and appreciates the House's efforts to promote spending discipline. The primary purpose of this legislation is to achieve mandatory savings. The Administration appreciates that the House bill achieves close to \$70 billion in total savings and \$50 billion in net savings, which represents a significant increase over the original Budget Resolution target of \$34.7 billion in net savings. With the unanticipated costs associated with Hurricane Katrina, it is important to achieve additional savings as part of the reconciliation process. The Administration looks forward to working with Congress to find additional savings and further improve the bill as it moves through the process.

Agriculture Committee

The Administration supports the Committee's efforts to narrow overly broad exemptions from the Food Stamp Program's eligibility limits. The Administration also appreciates that the Committee has included a provision to provide relief for States that administered disaster food stamp assistance for hurricane victims, but would prefer to set aside specific funds for this purpose.

The Administration appreciates the Committee's efforts to exceed its Budget Resolution target as well as the Committee's inclusion of the provisions eliminating the upland cotton Step 2 program, although the House is strongly urged to change the effective date from August 2006 to the date of enactment.

The Administration has concerns with certain other portions of the savings package, such as the provision that shifts direct payments, thus creating budget savings that are not real and will be spent in a future period. The Administration opposes the reductions in conservation programs, and proposes instead that the House include other provisions from the Administration's original proposal that would achieve savings, promote more efficient commodity production decisions, and help further our efforts to achieve global trade liberalization in the Doha Round. In addition, the Administration also opposes the extension through 2011 of the Conservation Security Program because the merits of continuing this program should be considered in context with other important agriculture programs during deliberations on the next farm bill.

Education and the Workforce Committee

The Administration supports the student loan provisions in H.R. 4241, which would provide for the recovery of excess subsidies in the Federal Family Education Loan program. The student loan provisions, while departing in some instances from the President's budget proposals for FY

2006, are generally consistent with the Administration's objectives for reauthorization of the Higher Education Act of 1965 by making the student loan programs more efficient and cost-effective, increasing loan limits and student benefits, and reducing costs to the taxpayer through expanded risk-sharing with institutions and lenders.

The Administration appreciates the Committee's efforts to begin to improve the solvency of the Pension Benefit Guaranty Corporation's insurance program by increasing and indexing single employer plan per-participant premium. In addition, comprehensive reform is urgently needed to ensure retirement security for the 44 million Americans who participate in defined-benefit plans. The Administration will continue working with Congress on legislation to strengthen pension plan funding rules, increase the transparency of pension plans' funding status, and avoid a taxpayer bailout of the insurance program.

The Administration supports the Committee's efforts to build on the successes of welfare reform. The Administration appreciates the Committee's proposal to improve the work participation requirements through eliminating separate participation requirements for two-parent families, increasing the work participation requirement to 70 percent by FY 2010, and requiring a 40-hour work week standard.

The Administration proposed providing up to \$2.6 billion to students and families displaced by Hurricane Katrina and the schools that are serving them. The proposal would provide up to \$1.9 billion in funding to public schools to reimburse them for the unexpected cost of educating displaced students and up to \$488 million to compensate families for the costs associated with attending private schools. It also would provide up to \$227 million in assistance to postsecondary institutions, students, and borrowers. The Administration strongly supports the House efforts to provide simple, streamlined assistance to public schools and families with children in private schools and urges the House to add provisions that will send immediate assistance to help in the Hurricane Katrina relief efforts.

The Administration is pleased that the President's proposal to provide \$650 million for a new program of Worker Recovery Accounts to help unemployed victims of Hurricane Katrina who need extra help finding work was recently introduced as H.R. 3976. The Administration looks forward to working with Congress to enact Worker Recovery Accounts to help victims of Hurricane Katrina.

Energy and Commerce Committee

The Administration is pleased that the Committee has developed a reconciliation package that achieves substantial savings in Medicaid.

The Administration supports the goals of many Medicaid proposals in H.R. 4241, in particular, the inclusion of the President's proposal to tighten the rules regarding asset transfers. The Administration appreciates that the Medicaid savings options in this package reach the Medicaid Commission target and are closer to the recommended level of savings in the President's Budget. The Administration appreciates the Committee's efforts to provide States with greater flexibility to administer their Medicaid programs effectively. However, the Administration has recommended a different approach to some of the proposals included in H.R. 4241, such as

changing the basis for reimbursement of Medicaid prescription drugs, expanding the State long-term care partnership program and clarifying reimbursable targeted case management (TCM) services. With respect to TCM services, the Administration supports a comprehensive approach that eliminates cost shifting from other Federal, State, and local programs, rather than just from Title IV programs. The Administration is also concerned with provisions that manipulate the Federal medical assistance percentage (FMAP). The Administration believes that these FMAP provisions may unnecessarily increase spending.

The Administration will continue to work with Congress to help ensure the integrity of the Medicaid program. The President's Budget proposed to phase down on the broad-based health care-related tax from six percent to three percent; disallow State Medicaid payments not retained by governmental entities; limit reimbursement of governmental providers; clarify the definition of rehabilitation; reduce the Federal matching rate for case management services; and set limits on administrative costs.

The Administration appreciates that the House has included provisions to give States relief from health-related costs associated with Hurricane Katrina. To help provide this relief, the Administration has developed a Section 1115 Demonstration Project for States to assure access to medically necessary services and supplies for individuals who have been displaced by Hurricane Katrina. As of November 4, 2005, thirteen States, including Louisiana and Mississippi, have used this project to create presumptive eligibility programs for evacuees who are eligible for Medicaid or State Children's Health Insurance Program (SCHIP) in their States. Further, eight of these States have additional authority to reimburse providers who have delivered needed care for individuals and needed services not covered under Medicaid through an uncompensated care pool. These funding mechanisms build on existing systems to meet the needs of States and evacuees, without requiring an unprecedented Federal expansion of Medicaid that would involve additional costs, administrative burdens, and delays.

The Administration prefers the Section 1115 demonstration approach that builds upon existing Medicaid/SCHIP eligibility and the assistance programs already providing relief in the affected States. The Administration believes that we can meet the needs of States without setting the precedent of guaranteeing 100 percent FMAP. The Administration's approach would provide targeted relief, setting aside specific funds to meet priority needs while allowing the Department of Health and Human Services flexibility to manage the funds effectively. This would support care for evacuees and States affected by Hurricane Katrina more efficiently than the proposed Medicaid expansion. The Administration estimates that about \$1 billion will be sufficient to address these needs.

The Administration appreciates the Committee's efforts to address the projected increase in home heating costs this winter for low-income families. The Administration supports a one-time increase of \$1 billion for the Low Income Home Energy Assistance Program (LIHEAP) and recommends the money be provided as contingency funds, provided that the costs are offset in the context of the reconciliation targets.

The Administration supports the inclusion of the "Digital Transition Act of 2005," which ensures the recovery of spectrum for public safety use and telecommunications innovation. The Administration will work with Congress as this proposal moves through the legislative process

to ensure that the largest possible share of auction receipts is devoted to deficit reduction, as well as to prevent the creation of unnecessary and duplicative grant programs.

Financial Services Committee

The Administration supports those provisions of the House proposal on deposit insurance reform that would merge the Bank Insurance and Savings Association Insurance Funds and ensure that institutions appropriately compensate the Federal Deposit Insurance Corporation for insured deposit growth, while also taking into account the past contributions of many institutions to build fund reserves. The Administration also supports the House provisions that would allow the insurance fund ratio to vary within a range and eliminate triggers that could cause sharp changes in premiums.

The Administration appreciates the House's inclusion of an Administration proposal to make Federal Housing Administration multi-family below-market sales and rehabilitation grants subject to appropriations, thereby allowing the Administration and Congress to set the level of activity for these authorities and have an opportunity to better control their use.

The Administration strongly opposes the bill's provisions for continuing mandatory increases in deposit insurance coverage limits. The interests of depositors will not be served by hard-wired, prospective increases in deposit insurance coverage limits, particularly for non-retirement accounts. The small fraction of savers with substantial deposits may obtain as much coverage as desired at minimal inconvenience by placing deposits at multiple institutions. Statutorily mandated increases in coverage limits would also expose taxpayers to additional risk while providing no benefit to the overwhelming majority of Americans.

Judiciary Committee

The Administration does not support the proposal to impose new fees on companies filing applications for certain employment-based visas to fund non-immigration-related activities unless the proposal is restructured to require that the fees be deposited in the Department of Homeland Security's Immigration Examinations Fee Account to support immigration adjudication and naturalization services.

Resources Committee

The Administration has serious concerns with the House's proposal to sell certain Federal lands in the District of Columbia. This proposal undermines the goals of the Administration's proposal and H.R. 3699, which recognize the unique nature of Federal land in the District and the special responsibility the Federal government has for the economic vitality of the Nation's capital.

The Administration urges the inclusion of the Administration's proposal to recover long unpaid capital and associated operations and maintenance costs of the Pick-Sloan Missouri Basin Program.

Ways and Means Committee

The Administration is extremely appreciative of the leadership of the House in enacting a comprehensive welfare reform package focusing on strengthening work requirements, providing funding for promoting family formation and healthy marriages, and providing far-ranging improvements to the child support program. The Administration also supports the requirement to clarify eligibility for Federal foster care and adoption assistance payments. Taken as a whole, this package will support the President's goal of helping low-income families become self-sufficient. In addition, the Administration supports conducting reviews of Supplemental Security Income initial disability and blindness cases to reduce improper payments.

The Administration strongly supports the provision that would repeal the Continued Dumping and Subsidy Offset Act of 2000 and thereby terminate an unwarranted diversion of funds from the Treasury, while leaving in place U.S. antidumping and countervailing duty remedies. Repeal would also enable the United States to fulfill its World Trade Organization obligations and avoid retaliatory tariffs from our trading partners.

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