Summaries of the following are attached for your perusal.

1. Gramm-Rudman-Hollings Legislation
2. FY 1986 Appropriations
   a. Labor/HHS/Education
   b. HUD
   c. Commerce and Justice
   d. Continuing Resolution
3. Food Stamp Program Extension
4. Veteran's Health Care Legislation
5. Summary/Status of Tax Reform Plan
6. Summary/Status of Budget Reconciliation
7. Legislation to Watch for in 1986

Att.
On December 12, 1985 the President signed the Gramm-Rudman-Hollings bill into law (PL 99-177). The purpose of this legislation is to eliminate the federal deficit by the year 1991. The bill passed the House of Representatives with a vote of 271-154, and passed the Senate 61-33.

The Gramm-Rudman-Hollings (G-R-H) legislation makes changes that speed up the Congressional budget process but does not replace it. The regular budget process will continue to be followed, and only if that process fails to meet the deficit targets as stated in G-R-H will the automatic spending cuts be triggered.

The following is a brief summary of the legislation, and includes pertinent timetables specified in the bill. You will note that the timetable for FFY 1986 is different than FFY's '87-'91. This is because we were already in FFY '86, when the legislation was passed, so the time frame had to be altered. In essence though, when Congress returns in January of 1986 they will be working on reducing the deficit for FFY's 1986 and 1987 almost simultaneously. Hopefully the summary below will explain this more clearly.

G-R-H specifies maximum allowable deficits for the federal budget as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Maximum Deficit</th>
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<tbody>
<tr>
<td>FY '86</td>
<td>$171.9 billion</td>
</tr>
<tr>
<td>FY '87</td>
<td>$144.0 billion</td>
</tr>
<tr>
<td>FY '88</td>
<td>$108.0 billion</td>
</tr>
<tr>
<td>FY '89</td>
<td>$72.0 billion</td>
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<tr>
<td>FY '90</td>
<td>$36.0 billion</td>
</tr>
<tr>
<td>FY '91</td>
<td>$0</td>
</tr>
</tbody>
</table>

Current estimates project the FY '86 deficit at over $200 billion. To achieve the target of $171.9 billion, at least $28.1 billion in additional cuts would need to be made. However for FY 1986 only G-R-H specifies that the automatic spending cuts cannot exceed $11.7 billion, even if that is not enough to reach the target, (which it will not be).
Action | for FY 1987-'88 | for FY 1989-'90, '91
--- | --- | ---
President submits his budget to Congress | already submitted last year | February 5
OMS & CBO estimate size of deficit for upcoming fiscal year. If they disagree, average of the two estimates used. | | January 10 | August 15
OMS & CBO report the estimated deficit to GAO. If the deficit is projected to be in excess of 10 billion over the target level for that year, the automatic deficit reduction procedure (sequestration) will take effect. OMB-CBO report will include specifics on the reductions in federal spending in the report. | | January 15 | August 20
Sequester order is required this year if 171.9 billion target is exceeded. This year only, cuts cannot exceed 11.7 billion |
GAO will review OMB-CBO report and send draft sequester order to President. (if the deficit is in excess of target) | | | |
President issues sequester order. | | | |
Cuts take effect | | | |
Sequester Order Guidelines

If a sequester order is issued, half of the cuts in the order must come from defense programs and half from non-defense programs. The cuts must be made uniformly across the board.

In FY '86 only, the President is not required to cut uniformly across the board in defense, but has some flexibility.

The following programs are exempted from the sequester cuts: Social Security, Food Stamps, SSI, AFDC, Child Nutrition, WIC, Veterans Compensation & Benefits, Medicaid, earned income tax credit and interest on the federal debt.*

The following programs can not be cut by more than one percent in FY '86 and two percent thereafter: Medicare, Veterans Health, Indian Health, community and migrant health centers.*

*These programs are only protected in the sequester process. They are not granted any protection in the regular budget process where efforts will be made first to reduce the deficit.

Special rules are established for reductions in: foster care, adoption assistance, unemployment insurance, child support enforcement, student loans and the commodity credit corporation.

If reductions are made in COLA's, the reduction will permanently lower the program base.

Congressional response to the President's sequester order must follow a special procedure in the Senate. Senate Budget Committee can either affirm or amend the order through reconciliation by requiring other Senate Committees to submit a legislative plan for implementation. If the committees fail to do this the Budget Committee could prepare the legislation.

The sequester order takes effect October 1 (March 1 for FY 1986). OMB & CBO issue a revised report on October 5 to reflect actions taken and GAO issues a revised report on October 10 to the President.

The first order, based on revised report, is effective as of October 15 (March 15 for FY 86).

Other Provisions in G-R-H

Social Security is removed from the unified federal budget as of FY '86, and is exempted from spending cuts during sequestering or reconciliations.

Note: Social Security could still be cut but not through the regular budget reconciliation or a sequester order or a Congressional response to the sequester order.
Payments to the Social Security Trust Funds from general revenues are prohibited as are payments to the Treasury from the Social Security trust funds.

All interest lost to the Social Security Trust Funds due to the Treasury's disinvestment in 1984 & 1985 must be repaid.

Any person alleged to be injured by the statute may bring a lawsuit. Members of Congress are authorized to test the statute's constitutionality.

If the use of an OMB-CBO-GAO report to trigger the sequester order is found unconstitutional, the report would then go to a special joint budget committee which would be required to report an order within 5 days, have Congress pass it, and the President sign it to render the sequester order effective.

If a President claims his Commander-in-Chief responsibilities as a reason for not including defense cuts as specified in G-R-H, and the Supreme Court upheld this claim, the entire order for automatic cuts would be invalid.

G-R-H Legal Challenge

The G-R-H law is currently being challenged by 12 House members and a federal employees union (National Treasury Employees Union).

Reasons for challenging the law are based on the roles given to CBO, and GAO, which some people believe are unconstitutional. Justice Department lawyer Richard Willard believes that the Comptroller General (GAO) cannot make decisions regarding budget reductions because he is a legislative officer and not an officer of the United States as required by the Constitution.

According to G-R-H legislation if use of the OMB-CBO-GAO roles in triggering the sequester order is found unconstitutional, Congress would have to approve the cuts pass a joint resolution and then send it to the President for signature before the sequester order could become effective.

There is speculation that if Congress were to become involved, they may use the opportunity to amend the G-R-H legislation.
Impact for FY 1986 (October 1, 1985-September 30, 1986)

On January 15, 1986 - OMB & CBO released their estimate of the FY 1986 deficit as $220 billion. Their recommendations for deficit reduction are a 4.3% cut in non-defense programs and a 4.9% reduction in defense programs. These cuts will reduce the deficit by $11.7 billion (maximum permitted for this year by G-R-H).

As stated previously, this year there is some discretion on how the 4.9% cut in the defense budget can be made. Regarding the non-defense programs, the 4.3% must be cut from every "program, project and activity" excluding the programs exempted in the legislation (see page 3).

A 4.3% reduction would have the following impact on FY '86 National Human Service appropriations:

- Title III B & C - cut from 669 in to $640.23 million
- Social Services Block Grant - cut from $2.7 billion to $2.58 billion
- Community Services Block Grant - cut from $370 million to $354.09 million
- Low Income Home Energy Assistance Program - cut from $2.1 billion to $2.01 billion
- Medicare cut form $75.7 billion to 74.9 billion (1% reduction)

The recommendations for reduction must now be reviewed by GAO who will then send the draft sequester order to the President by approximately January 20, 1986. According to the G-R-H timetable, the President will issue the sequester order by February 1, 1986 and the cuts will take effect March 1, 1986.

Projections for FY 1987

Fiscal year 1987 begins on October 1, 1986 and ends September 30, 1987. However, the President submits his budget proposal for FY '87 on February 5, 1986.

There are indications that the President's FY '87 budget will meet the FY '87 G-R-H deficit target of 144 billion. In order to meet this target, the President's budget would have to reduce federal spending by $50 billion or more. Furthermore, the Administration is still claiming that this reduction can be made without tax increases and continuing a defense build up of 3% above inflation.

In all probability, if the President's budget meets the deficit target for FY '87, it will be through major cut backs in human service programs.
When Congress returns in January, 1986, it may be confusing because there will be rapid consideration of 11.7 billion in additional cuts for FY '86, while almost simultaneously, the President will be declaring his budget cuts for FY '87.

2. FFY 1986 Appropriations

A. Labor/Health & Human Services/Education Appropriations*

On December 12, 1985 the President signed the Labor/Health & Human Services/Education appropriations bill into law (PL 99-178). National funding levels for programs utilized by the elderly are as follows:

Older Americans Act (National Appropriations)

<table>
<thead>
<tr>
<th>Title</th>
<th>FFY '86</th>
<th>FFY '85</th>
</tr>
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<tbody>
<tr>
<td>Title III-B</td>
<td>265 million</td>
<td>Same</td>
</tr>
<tr>
<td>Title III-C-1</td>
<td>336 million</td>
<td>''</td>
</tr>
<tr>
<td>Title III-C-2</td>
<td>67.9 million</td>
<td>''</td>
</tr>
<tr>
<td>Title IV</td>
<td>25 million</td>
<td>''</td>
</tr>
<tr>
<td>Title V</td>
<td>326 million</td>
<td>''</td>
</tr>
<tr>
<td>Title VI</td>
<td>7.5 million</td>
<td>''</td>
</tr>
</tbody>
</table>

Low Income Home Energy Assistance Program (National Appropriations)

FFY '86 2.1 billion - Same as FFY '85

Social Service Block Grant

FFY '86 2.7 billion - 5 million less than FFY '85

Community Services Block Grant

FFY '86 370.3 million - 2.1 million less than FFY '85
B. Housing and Urban Development (HUD) Appropriation

The HUD appropriations bill was passed November 25, 1985, and signed into law by the President (PL 99-160). Key points of interest to the elderly include the following funding allocations for FY 1986.

- Section 202 - $1,616,640,000 funding for 12,000 units
- Section 8 existing units - $2,468,160,000 funding for 32,000 units
- Section 8 moderate rehabilitation - $922,500,000 funding for 10,000 units
- Housing Vouchers - $851,225,000 funding for 36,000 units
- Congregate Housing - $2.7 million - $1.4 million below FY '85 request
- Urban Development Action Grant - $330 million

The FY '86 Housing bill represents a $225 million cut from FY '85.

C. Commerce and Justice Appropriation

The Commerce and Justice appropriation was signed into law December 13, 1985 (PL 99-180). The bill includes funding for the Legal Services Corporation (LSC) at $305 million for fiscal year 1986. This is the same amount LSC received in FY 1985.
D. Continuing Resolution

PL 99-190 is a catch-all money bill. Signed December 19, 1985, the bill continues funding through the end of the fiscal year for departments for which no regular appropriations bills had been passed, before Congress recessed. Included are the following appropriations:

**Agriculture**

- $11.8 billion for food stamps - $51 million more than FY '85 appropriations
- $136.9 billion for the Commodity/Cash-in-Lieu program - up to $7 million of this can be used to cover expenditures in FY '85
- $49.7 billion for the Temporary Emergency Food Assistance Program (TEFAP)

**Weatherization**

- $191 million - slightly below FY 1985 funding

**Tax Counseling for the Elderly**

- $2.2 million - up $200,000 from FY '85

**UMIA Formulae Grant Program**

- $2.15 billion - down 2.45 billion from FY '85

**Farmers Home Section 504 Home Repair Loans and Grants**

- $12.4 million

3. Food Stamp Program Extension

Included in the Food Stamp Security Act recently signed into law (PL 99-198) is a 5 year extension of the food stamp program.

Of interest to the elderly is a new provision that will increase the liquid asset limitation from $1,500 to $3,000 for households with one or more aged members. In addition, any household in which every family member receives SSI or AFDC will be automatically eligible for food stamps in FY '87.
Social Security offices must now inform SSI and Social Security recipients about the availability of food stamps and provide SSI recipients assistance in completing the application.

This new law also insures that persons participating in the food stamp program and the Low Income Home Energy Assistance Program are still entitled to the standard utility allowance.

This law will permit the Commodity Supplemental Food Projects to continue serving the elderly provided it does not deny benefits to women and children.

4. Veteran’s Health Care Legislation

Veteran’s Health Care legislation became law (PL 99-166) on December 3, 1985. Its purpose is to improve delivery of health care services by the Veteran’s Administration. The law contains provisions for the expansion of geriatric research, education and clinical center programs and transfers of nursing home care among others.

5. Summary/Status of the Tax Reform Plan

On May 28, 1985, President Reagan unveiled his new tax reform plan - Treasury II. The goal of the Reagan plan was tax simplification and reduction of the tax burden for those in the low- and- middle income brackets.

Several of the key points in Treasury II included the following.

-Reduction in the number of federal income tax brackets from 11 to 3. The three tax levels would be 15%, 25% and 35%.

-Elimination of any blind or elderly American living at or below the poverty level from the tax rolls.

-Limitation on tax deductions which could be made for charitable contributions. (Only itemizers could continue to deduct charitable expenses.)

-Elimination of deductions for state and local income, sales, and property taxes.

-Treatment of certain employer-paid health insurance premiums as taxable employee income.

The reaction to Treasury II was immediate. Charitable groups opposed the tax deduction limitation on charitable contributions. Officials from high-tax states, such as Governor Mario Cuomo of New York vigorously opposed the elimination of state and local income tax deductions.
Members of both the Republican and Democratic parties were not particularly receptive to overhauling the tax system. This was due in part to the fact that their constituents expressed little enthusiasm for the effort and more concern about budget and trade issues and also that a massive change in tax law would involve painful political choices that many members of Congress were unwilling to make.

The road to tax reform proved to be a rocky one. Committee meetings were held throughout the summer and fall of 1985 with very little progress being made. The House Ways & Means Committee, with its chairman, Dan Rostenkowski (D-Ill.), worked long and hard at trying to come up with a working model of a tax reform package.

Finally, at the end of November, 1985, before adjourning for the session, the House passed HR 3838, a tax reform package.

The package retained the goals of Treasury II which were considered to be non-negotiable, namely,

- continue the deductibility of interest on home mortgages
- remove millions of low-income persons for the tax rolls
- be revenue-neutral
- keep Treasury II's basic structure of three tax rates (while adding a fourth rate 38%)

Among the additional measures proposed by HR 3838 are the following.


- Retaining the complete deductibility of state and local taxes.

- Allowing non-itemizers to deduct their charitable contributions in full above $100.

- Retaining the exemption for employer-paid health insurance benefits for employees.

- Increasing the penalty tax from 10% to 15% of the distribution if an amount is withdrawn from an IRA before death, disability, or attainment of age 59 1/2. An identical penalty would apply for premature withdrawals from a qualified pension or annuity, tax-sheltered annuity or a Section 401 (K) salary reduction.
- Establishing a new limit of $7,000 per year in tax-free employee contributions to Section 401 (K) salary reduction plans. Currently, the limit is set at $30,000, or 25% of total compensation, whichever is lower. This proposal would require that the $2,000 limit on IRA contributions be reduced by the amount of contributions to a Section 401 (K) plan.

- Establishing a $7,000 ceiling for contributions to tax-sheltered annuities (TSA's). Also, the $2,000 limit on IRA contributions would be reduced by contributions to TSA's.

According to preliminary estimates by the House Ways & Means Committee staff, 71% of cuts in 1987 would go to persons making less than $75,000. Treasury II, on the other hand, would have given only 52% to those persons, who comprise more than 90% of all taxpayers.

There was concern among Democrats in the House (e.g. House Speaker Thomas P. O'Neill Jr., D-Mass.) that HR 3838 did not have the Republican support in the House which it needed in order to be passed. On December 11, the legislation was dealt a serious blow when the House voted 202-223 against a rule that would have allowed debate of the measure on the House floor. Republicans said they opposed the bill because it veered from the original goals of Treasury II by limiting incentives for business investment and by calling for less generous tax cuts for some individuals.

HR 3838 was, however, passed by the House before adjourning for the session. The Senate Finance Committee is expected to consider the measure shortly after the Congress returns January 21 for the second session. The Senate version of the Tax Reform Act is expected to resemble the House-passed measure.

6. Summary/Status of Budget Reconciliation (HR 3128)

The Deficit Reduction Act (also known as the Budget Reconciliation bill - HR 3128) has as its goal the reduction of the federal deficit by at least $75 billion over a 3 year period. Proponents of this bill hope to achieve savings by reducing spending for student loans, small businesses, veterans, the Medicare program and other such measures.

However limited progress was made with respect to the reconciliation bill during last session. The Conference Committee assigned to HR 3128 approved the Medicare and Medicaid changes included in the bill. However due to a dispute over funding for toxic waste clean-up (Superfund), the bill failed to gain Congressional approval. Indications are that the bill will probably be considered again by Congress by the end of January 1986. Meanwhile, Congress passed an extension of the Emergency Extension Act of 1985 through March 14, 1986. This law freezes payments for physicians and for Inpatient hospital services at September 30, 1985 levels.
The major changes in the Medicare program that have been approved by the Conference Committee include:

- Extend for FY '86 a physician fee freeze for doctors who do not accept Medicare assignment. For doctors who do accept assignment, the freeze would be lifted and an increase provided.

- Current freeze on payments for PPS and non-PPS hospitals for inpatient care would continue through 2/1986, with a 1% increase in payments for Prospective Payment System (PPS) and non-PPS hospitals for a portion of the 1986 fiscal year.

- A one year extension of the 3 year PPS transition period.

- An adjustment for disproportionate share hospitals.

- Medicare coverage for state and local government employees hired after December 31, 1985. The governmental agency would be given the option of whether to cover current employees.

- The adjustment for indirect teaching costs would be reduced.

- Part B premium would be held at 25% of program costs through 1988 and two other provisions would also be extended: (1) if there is no Social Security cost-of-living increase, the monthly premium would not be increased in that year; and (2) no reduction could be made in an individual's Social Security check as a result of a premium increase.

- A small increase in payments for direct medical education costs would be allowed.

- Extension of working aged provisions to those over 69.

- Extension of reimbursement for hospice care.

The major changes in the Medicaid program include:

- Allow states the option of Medicaid coverage for hospice care

- Limit use of trusts to meet Medicaid eligibility

- Improvement in the policy on waivers for home and community based services

- Improvement in the third-party liability and collection policy.
7. **Other Legislation to watch for in 1986**

Several bills of interest remained unpassed in 1985. These bills will be considered in 1986. Of particular interest are:

- **HR 2401 (Shroeder)** - which would establish reporting requirements applicable in the case of any agency proposing to carry out removals, reductions in grade or pay or other adverse personnel actions incident to closing or changing the function of any of its field offices. HR 2401 passed the House on July 8, 1985 and is currently in the Senate Committee on Governmental Affairs. This bill is especially important to older americans in the face of the threatened closings of many Social Security offices.

- **HR 2293** - which would amend Title XVII of the Social Security Act with respect to the establishment of standards for long-term health care insurance. Introduced on April 30, 1985 the bill is currently in the House Committee on Ways & Means and in the House Committee on Energy and Commerce.

- **HR 1917 (Roybal)** - which would amend Title II of the Social Security Act to restore and protect the benefit levels of workers reaching age 65 in or after 1982 (and widows and widowers), by eliminating the "notch" between those levels of individuals who reached age 65 before 1982. Introduced on April 2, 1985 the bill is currently in the House Committee on Ways & Means.

- **S. 1811 (Hatch/Kennedy)** - is a home health care block grant bill which would provide $300 million to states over a three year period. The bill outlines a program for the provision of home and community based services to elderly individuals. The bill was introduced May 21, 1985. On December 4, 1985 an amended version was reported to the Senate by the Senate Committee on Labor and Resources.

- **HR 3700** - to improve financial assistance and related services for older and other non-traditional students.

- **HR 3470** - to make the Social Security Administration an independent agency

- **HR 2661 (Schumer)** - Consumer Banking Act of 1985 with a provision to provide "life line" banking for low income consumers.

- **HR 2712 (Blaggi)** - Require full pension accrual beyond age 65.